

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, 2019**

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

(State or other jurisdiction
of incorporation or organization)

77-0448994

(I.R.S. Employer identification No.)

**1720 North First Street
San Jose, California 95112**

(Address of principal executive offices)

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)

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

Title of Each Class:	Trading Symbol(s)	Name of Each Exchange on Which Registered:
Common Stock, \$0.01 par value per share	CWT	New York Stock Exchange

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 every Interactive Data File required to be submitted 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). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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, 2019 — 48,145,000

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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, 2019	December 31, 2018
ASSETS		
Utility plant:		
Utility plant	\$ 3,411,219	\$ 3,229,446
Less accumulated depreciation and amortization	(1,067,965)	(996,723)
Net utility plant	<u>2,343,254</u>	<u>2,232,723</u>
Current assets:		
Cash and cash equivalents	51,257	47,176
Receivables:		
Customers	45,624	30,037
Regulatory balancing accounts	33,437	42,394
Other	16,977	17,101
Unbilled revenue	42,562	33,427
Materials and supplies at weighted average cost	7,804	6,586
Taxes, prepaid expenses, and other assets	14,395	11,981
Total current assets	<u>212,056</u>	<u>188,702</u>
Other assets:		
Regulatory assets	382,484	353,569
Goodwill	2,615	2,615
Other assets	82,845	60,095
Total other assets	<u>467,944</u>	<u>416,279</u>
TOTAL ASSETS	<u>\$ 3,023,254</u>	<u>\$ 2,837,704</u>
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$0.01 par value; 68,000 shares authorized, 48,145 and 48,065 outstanding in 2019 and 2018, respectively	\$ 481	\$ 481
Additional paid-in capital	341,988	337,623
Retained earnings	415,326	392,053
Total common stockholders' equity	<u>757,795</u>	<u>730,157</u>
Long-term debt, net	807,478	710,027
Total capitalization	<u>1,565,273</u>	<u>1,440,184</u>
Current liabilities:		
Current maturities of long-term debt, net	5,280	104,911
Short-term borrowings	155,100	65,100
Accounts payable	108,593	95,580
Regulatory balancing accounts	6,887	12,213
Accrued interest	14,410	5,674
Accrued expenses and other liabilities	43,674	37,688
Total current liabilities	<u>333,944</u>	<u>321,166</u>
Unamortized investment tax credits	1,649	1,649
Deferred income taxes	229,237	213,033
Pension and postretirement benefits other than pensions	203,557	193,538
Regulatory liabilities and other	260,812	256,522
Advances for construction	190,272	186,342
Contributions in aid of construction	238,510	225,270
Commitments and contingencies (Note 10)		
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$ 3,023,254</u>	<u>\$ 2,837,704</u>

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, 2019	September 30, 2018
Operating revenue	\$ 232,537	\$ 221,288
Operating expenses:		
Operations:		
Water production costs	80,568	78,818
Administrative and general	26,779	26,493
Other operations	24,550	21,943
Maintenance	7,065	6,768
Depreciation and amortization	22,273	21,009
Income taxes	12,194	11,786
Property and other taxes	7,541	7,142
Total operating expenses	180,970	173,959
Net operating income	51,567	47,329
Other income and expenses:		
Non-regulated revenue	4,118	4,703
Non-regulated expenses	(4,351)	(4,897)
Other components of net periodic benefit cost	(1,857)	(1,975)
Allowance for equity funds used during construction	1,868	1,023
Income tax benefit on other income and expenses	330	305
Net other income (loss)	108	(841)
Interest expense:		
Interest expense	10,279	10,875
Allowance for borrowed funds used during construction	(1,028)	(560)
Net interest expense	9,251	10,315
Net income	\$ 42,424	\$ 36,173
Earnings per share:		
Basic	\$ 0.88	\$ 0.75
Diluted	0.88	0.75
Weighted average shares outstanding:		
Basic	48,141	48,070
Diluted	48,141	48,070

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, 2019	September 30, 2018
Operating revenue	\$ 537,679	\$ 530,779
Operating expenses:		
Operations:		
Water production costs	190,795	191,797
Administrative and general	81,310	77,195
Other operations	64,913	60,307
Maintenance	19,212	17,596
Depreciation and amortization	66,967	62,677
Income taxes	13,524	16,950
Property and other taxes	21,902	20,253
Total operating expenses	458,623	446,775
Net operating income	79,056	84,004
Other income and expenses:		
Non-regulated revenue	14,149	13,967
Non-regulated expenses	(10,470)	(16,449)
Other components of net periodic benefit cost	(4,308)	(6,984)
Allowance for equity funds used during construction	5,087	2,644
Income tax (expense) benefit on other income and expenses	(985)	1,882
Net other income (loss)	3,473	(4,940)
Interest expense:		
Interest expense	33,532	30,207
Allowance for borrowed funds used during construction	(2,783)	(1,359)
Net interest expense	30,749	28,848
Net income	\$ 51,780	\$ 50,216
Earnings per share:		
Basic	\$ 1.08	\$ 1.04
Diluted	1.08	1.04
Weighted average shares outstanding:		
Basic	48,121	48,058
Diluted	48,121	48,058

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

For the nine months ended:	September 30, 2019	September 30, 2018
Operating activities:		
Net income	\$ 51,780	\$ 50,216
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	68,522	64,131
Change in value of life insurance contracts	(3,433)	124
Allowance for equity funds used during construction	(5,087)	(2,644)
Changes in operating assets and liabilities:		
Receivables and unbilled revenue	(29,436)	(18,471)
Accounts payable	16,735	18,133
Other current assets	(3,937)	(1,392)
Other current liabilities	11,597	8,762
Other changes in noncurrent assets and liabilities	21,602	644
Net cash provided by operating activities	128,343	119,503
Investing activities:		
Utility plant expenditures	(194,942)	(212,856)
Life insurance proceeds	—	3,491
Purchase of life insurance contracts	(2,216)	(4,925)
Net cash used in investing activities	(197,158)	(214,290)
Financing activities:		
Short-term borrowings	210,000	141,000
Repayment of short-term borrowings	(120,000)	(341,000)
Issuance of long-term debt, net of expenses of \$1,569 for 2019 and \$617 for 2018	398,431	299,383
Repayment of long-term debt	(401,630)	(12,499)
Advances and contributions in aid of construction	21,266	13,630
Refunds of advances for construction	(5,560)	(5,462)
Repurchase of common stock	(2,355)	(1,496)
Issuance of common stock	1,278	—
Dividends paid	(28,507)	(27,029)
Net cash provided by financing activities	72,923	66,527
Change in cash, cash equivalents, and restricted cash	4,108	(28,260)
Cash, cash equivalents, and restricted cash at beginning of period	47,715	95,352
Cash, cash equivalents, and restricted cash at end of period	\$ 51,823	\$ 67,092
Supplemental information:		
Cash paid for interest (net of amounts capitalized)	\$ 22,060	\$ 19,956
Supplemental disclosure of non-cash activities:		
Accrued payables for investments in utility plant	\$ 31,676	\$ 32,328
Utility plant contribution by developers	\$ 23,955	\$ 14,807

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CALIFORNIA WATER SERVICE GROUP
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2019
Dollar amounts in thousands unless otherwise stated

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 included in its Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the SEC on February 28, 2019.

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.

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

Operating revenue

The following tables disaggregate the Company's operating revenue by source for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30	
	2019	2018
Revenue from contracts with customers	\$ 214,963	\$ 209,541
Regulatory balancing account revenue	17,574	11,747
Total operating revenue	\$ 232,537	\$ 221,288

	Nine Months Ended September 30	
	2019	2018
Revenue from contracts with customers	\$ 499,840	\$ 515,567
Regulatory balancing account revenue	37,839	15,212
Total operating revenue	<u>\$ 537,679</u>	<u>\$ 530,779</u>

Revenue from contracts with customers

The Company principally generates operating revenue from contracts with customers by providing regulated water and wastewater services at tariff-rates authorized by the Commissions in the states in which they operate and non-regulated water and wastewater services at rates authorized by contracts with government agencies. Revenue from contracts with customers reflects amounts billed for the volume of consumption at authorized per unit rates, for a service charge, and for other authorized charges.

The Company satisfies its performance obligation to provide water and wastewater services over time as services are rendered. The Company applies the invoice practical expedient and recognizes revenue from contracts with customers in the amount for which the Company has a right to invoice. The Company has a right to invoice for the volume of consumption, for the service charge, and for other authorized charges.

The measurement of sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, the Company estimates consumption since the date of the last meter reading and a corresponding unbilled revenue is recognized. The estimate is based upon the number of unbilled days that month and the average daily customer billing rate from the previous month (which fluctuates based upon customer usage).

Contract terms are generally short-term and at will by customers and, as a result, no separate financing component is recognized for the Company's collections from customers, which generally require payment within 30 days of billing. The Company applies judgment, based principally on historical payment experience, in estimating its customers' ability to pay.

Certain customers are not billed for volumetric consumption, but are instead billed a flat rate at the beginning of each monthly service period. The amount billed is initially deferred and subsequently recognized over the monthly service period, as the performance obligation is satisfied. The deferred revenue balance or contract liability, which is included in "accrued expenses and other liabilities" on the consolidated balance sheets, is inconsequential.

In the following tables, revenue from contracts with customers is disaggregated by class of customers for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30	
	2019	2018
Residential	\$ 139,137	\$ 138,939
Business	38,247	38,538
Industrial	9,077	8,987
Public authorities	12,482	12,180
Other (a)	16,020	10,897
Total revenue from contracts with customers	<u>\$ 214,963</u>	<u>\$ 209,541</u>

	Nine Months Ended September 30	
	2019	2018
Residential	\$ 330,745	\$ 340,107
Business	95,433	97,720
Industrial	23,866	24,507
Public authorities	24,566	25,875
Other (a)	25,230	27,358
Total revenue from contracts with customers	<u>\$ 499,840</u>	<u>\$ 515,567</u>

(a) Other includes the accrued unbilled revenue.

Regulatory balancing account revenue

The Company's ability to recover revenue requirements authorized by the California Public Utilities Commission (CPUC) in its triennial General Rate Case (GRC), is decoupled from the volume of the sales. Regulatory balancing account revenue is revenue related to rate mechanisms authorized in California by the CPUC, which allow the Company to recover the authorized revenue and are not considered contracts with customers.

The Water Revenue Adjustment Mechanism (WRAM) allows the Company to recognize the adopted level of volumetric revenues. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts is recorded as regulatory balancing account revenue.

Cost-recovery rates, such as the Modified Cost Balancing Account (MCBA), provide for recovery of the adopted levels of expenses for purchased water, purchased power, pump taxes, water conservation program costs, pension, and health care. Variances between adopted and actual costs are recorded as regulatory balancing account revenue.

Each district's WRAM and MCBA regulatory assets and liabilities are allowed to be netted against one another. The Company recognizes regulatory balancing account revenues that have been authorized for rate recovery, are objectively determinable and probable of recovery, and are expected to be collected within 24 months. To the extent that regulatory balancing account revenue is estimated to be collectible beyond 24 months, recognition is deferred.

Non-regulated Revenue

The following tables disaggregate the Company's non-regulated revenue by source for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30	
	2019	2018
Operating and maintenance revenue	\$ 2,929	\$ 2,816
Other non-regulated revenue	626	1,328
Non-regulated revenue from contracts with customers	\$ 3,555	\$ 4,144
Lease revenue	\$ 563	\$ 559
Total non-regulated revenue	\$ 4,118	\$ 4,703

	Nine Months Ended September 30	
	2019	2018
Operating and maintenance revenue	\$ 9,248	\$ 8,278
Other non-regulated revenue	3,189	4,053
Non-regulated revenue from contracts with customers	\$ 12,437	\$ 12,331
Lease revenue	\$ 1,712	\$ 1,636
Total non-regulated revenue	\$ 14,149	\$ 13,967

Operating and maintenance services are provided for non-regulated water and wastewater systems owned by private companies and municipalities. The Company negotiates formal agreements with the customers, under which they provide operating, maintenance and customer billing services related to the customers' water system. The formal agreements outline the fee schedule for the services provided. The agreements typically call for a fee-per-service or a flat-rate amount per month. The Company satisfies its performance obligation of providing operating and maintenance services over time as services are rendered; as a result, the Company employs the invoice practical expedient and recognizes revenue in the amount that it has the right to invoice. Contract terms are generally short-term and, as a result, no separate financing component is recognized for its collections from customers, which generally require payment within 30 days of billing.

Other non-regulated revenue primarily relates to services for the design and installation of water mains and other water infrastructure for customers outside the regulated service areas and insurance program administration.

Lease revenue is not considered revenue from contracts with customers and is recognized following operating lease standards. The Company is the lessor in operating lease agreements with telecommunications companies under which cellular phone antennas are placed on the Company's property. The company provides the lessee the right to ingress and egress across lessor property to access the antennas. The minimum rents are recognized on a straight-line basis over the terms of the leases, which may span multiple years. The excess rents are recognized over amounts contractually due pursuant to the underlying leases and is included in a deferred receivable account in the accompanying balance sheet. The

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leases generally have terms of 5 to 10 years, with lessee options to extend the lease for up to 15 years. The exercise of lease renewal options is at the lessee's sole discretion. Most of the Company's lease agreements contain mutual termination options that require prior written notice by either lessee or lessor. A subset of the Company's leases contains variable lease payments that depend on changes in the consumer price index (CPI).

The Company determines if an arrangement is a lease at inception. Generally, a lease agreement exists if the Company determines that the arrangement gives the lessee control over the use of an identified asset and obtains substantially all of the benefits from the identified asset.

Maturities of lease payments to be received are as follows:

Year Ending December 31,	Operating Leases
2019	\$ 3,153
2020	2,587
2021	1,880
2022	1,078
2023	584
Thereafter	871

Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash within the Condensed Consolidated Balance Sheets that sum to the total of the same such amounts shown on the Condensed Consolidated Statements of Cash Flows:

	September 30, 2019	December 31, 2018
Cash and cash equivalents	51,257	47,176
Restricted cash (included in "taxes, prepaid expenses and other assets")	566	539
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	<u>\$ 51,823</u>	<u>\$ 47,715</u>

Adoption of New Accounting Standards

In February of 2016, the Financial Accounting Standards Board (FASB) issued guidance on leases, with amendments in 2018. The guidance requires lessees to recognize an asset and liability on the balance sheet for all of their lease obligations. Operating leases were previously not recognized on the balance sheet.

The Company adopted the standard using the modified retrospective method for its existing leases and did not restate its comparative periods in the period of adoption. The Company completed its review of its lease portfolio including significant leases and the Company designed and implemented new controls as part of the adoption of the new standard. The implementation increased lease assets and lease liabilities on the Consolidated Balance Sheets by \$13.8 million as of January 1, 2019.

The Company elected certain practical expedients and carried forward historical conclusions related to (1) contracts that contain leases, (2) existing lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases. The Company also applied the practical expedient that allows the Company to elect, as an accounting policy, by asset class, to include both lease and non-lease components as a single component and account for it as a lease. The Company applied the short-term lease exception which allowed the Company to not have to apply the recognition requirements of the new leasing guidance for short-term leases and to recognize lease payments in net income on a straight-line basis over the lease term. Otherwise, the new standard did not have a material impact on the remaining consolidated financial statements.

Note 3. Stock-based Compensation

Equity Incentive Plan

The following table lists the number of annual Restricted Stock Awards (RSAs) granted and canceled during the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
RSAs granted	—	1,138	36,183	47,273
RSAs canceled	2,739	3,214	14,394	16,520

During the first nine months of 2019 and 2018, the RSAs granted were valued at \$52.83 and \$35.40 per share, respectively, based upon the fair value of the Company's common stock on the date of grant.

The following table lists the number of Restricted Stock Unit Awards (RSUs) granted, issued, and canceled during the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
RSUs granted	—	—	26,473	28,594
RSUs issued	—	—	62,726	48,753
RSUs canceled	—	—	31,177	24,009

The 2019 and 2018 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 \$52.83 per share and \$35.40 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 \$5.3 million and \$2.3 million for the nine months ended September 30, 2019 and 2018, respectively. For the three months ended September 30, 2019 and 2018, the Company has recorded compensation costs for the RSAs and RSUs in the amount of \$1.4 million and \$0.8 million, respectively.

Note 4. Equity

On October 31, 2019, the Company entered into an equity distribution agreement with Morgan Stanley & Co., LLC, Robert W. Baird & Co. Incorporated, Blaylock Van, LLC and Wells Fargo Securities, LLC to sell shares of its common stock having an aggregate gross sales price of up to \$300.0 million from time to time depending on market conditions through an at-the-market equity program over the next three years. The Company intends to use the net proceeds from these sales, after deducting commissions on such sales and offering expenses, for general corporate purposes, which may include working capital, construction and acquisition expenditures, investments and repurchases, and redemptions of securities.

The Company's changes in total common stockholders' equity for the nine months ended September 30, 2019 and 2018 were as follows:

	Nine months ended September 30, 2019				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
(In thousands)					
Balance at January 1, 2019	48,065	\$ 481	\$ 337,623	\$ 392,053	\$ 730,157
Net loss				(7,640)	(7,640)
Issuance of common stock	109	—	3,179	—	3,179
Repurchase of common stock	(40)	—	(2,074)	—	(2,074)
Dividends paid on common stock (\$0.1975 per share)				(9,493)	(9,493)
Balance at March 31, 2019	<u>48,134</u>	<u>481</u>	<u>338,728</u>	<u>374,920</u>	<u>714,129</u>
Net income				16,996	16,996
Issuance of common stock	8	—	1,675	—	1,675
Repurchase of common stock	(2)	—	(129)	—	(129)
Dividends paid on common stock (\$0.1975 per share)				(9,507)	(9,507)
Balance at June 30, 2019	<u>48,140</u>	<u>481</u>	<u>340,274</u>	<u>382,409</u>	<u>723,164</u>
Net income				42,424	42,424
Issuance of common stock	9	—	1,866	—	1,866
Repurchase of common stock	(4)	—	(152)	—	(152)
Dividends paid on common stock (\$0.1975 per share)				(9,507)	(9,507)
Balance at September 30, 2019	<u>48,145</u>	<u>481</u>	<u>341,988</u>	<u>415,326</u>	<u>757,795</u>

Nine months ended September 30, 2018						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	
	Shares	Amount				
(In thousands)						
Balance at January 1, 2018	48,012	\$ 480	\$ 336,229	\$ 362,512	\$ 699,221	
Net loss				(762)	(762)	
Issuance of common stock	95	1	635	—	636	
Repurchase of common stock	(33)	—	(1,239)	—	(1,239)	
Dividends paid on common stock (\$0.1875 per share)				(9,003)	(9,003)	
Balance at March 31, 2018	<u>48,074</u>	<u>481</u>	<u>335,625</u>	<u>352,747</u>	<u>688,853</u>	
Net income				14,805	14,805	
Issuance of common stock	—	—	737	—	737	
Repurchase of common stock	(4)	—	(124)	—	(124)	
Dividends paid on common stock (\$0.1875 per share)				(9,014)	(9,014)	
Balance at June 30, 2018	<u>48,070</u>	<u>481</u>	<u>336,238</u>	<u>358,538</u>	<u>695,257</u>	
Net income				36,173	36,173	
Issuance of common stock	1	—	853	—	853	
Repurchase of common stock	(3)	—	(131)	—	(131)	
Dividends paid on common stock (\$0.1875 per share)				(9,012)	(9,012)	
Balance at September 30, 2018	<u>48,068</u>	<u>481</u>	<u>336,960</u>	<u>385,699</u>	<u>723,140</u>	

Note 5. Earnings Per Share

The computations of basic and diluted earnings per share are noted in the table below. Basic earnings per share are computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding during the period. 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 Organization & Compensation Committee of the Board of Directors.

	Three Months Ended September 30	
	2019	2018
	(In thousands, except per share data)	
Net income available to common stockholders	\$ 42,424	\$ 36,173
Weighted average common shares outstanding, basic	48,141	48,070
Weighted average common shares outstanding, dilutive	48,141	48,070
Earnings per share - basic	\$ 0.88	\$ 0.75
Earnings per share - diluted	\$ 0.88	\$ 0.75

	Nine Months Ended September 30	
	2019	2018
	(In thousands, except per share data)	
Net income available to common stockholders	\$ 51,780	\$ 50,216
Weighted average common shares outstanding, basic	48,121	48,058
Weighted average common shares outstanding, dilutive	48,121	48,058
Earnings per share - basic	\$ 1.08	\$ 1.04
Earnings per share - diluted	\$ 1.08	\$ 1.04

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 made by the Company related to the pension plans were \$12.5 million and \$42.3 million for the nine months ended September 30, 2019 and 2018, respectively. Cash contributions made by the Company related to the other postretirement benefit plans were \$5.6 million and \$8.0 million for the nine months ended September 30, 2019 and 2018, respectively. The total 2019 estimated cash contribution to the pension plans is \$18.8 million and to the other postretirement benefit plans is \$7.9 million.

The following tables list 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	
	2019	2018	2019	2018
Service cost	\$ 6,910	\$ 6,966	\$ 2,082	\$ 1,966
Interest cost	6,941	6,007	1,407	1,183
Expected return on plan assets	(7,581)	(7,052)	(1,475)	(1,397)
Amortization of prior service cost	1,262	1,263	49	11
Recognized net actuarial loss	1,821	2,791	214	242
Net periodic benefit cost	<u>\$ 9,353</u>	<u>\$ 9,975</u>	<u>\$ 2,277</u>	<u>\$ 2,005</u>

	Nine Months Ended September 30			
	Pension Plan		Other Benefits	
	2019	2018	2019	2018
Service cost	\$ 20,039	\$ 21,770	\$ 5,606	\$ 7,066
Interest cost	20,225	17,996	4,081	4,152
Expected return on plan assets	(22,714)	(20,777)	(4,346)	(4,229)
Amortization of prior service cost	3,786	3,789	148	32
Recognized net actuarial loss	4,445	8,386	421	1,789
Net periodic benefit cost	<u>\$ 25,781</u>	<u>\$ 31,164</u>	<u>\$ 5,910</u>	<u>\$ 8,810</u>

Service cost portion of the pension plan and other postretirement benefits is recognized in "administrative and general" expenses within the Condensed Consolidated Statements of Income. Other components of net periodic benefit costs include interest costs, expected return on plan assets, amortization of prior service costs, and recognized net actuarial loss and are reported together as "other components of net periodic benefit cost" within the Condensed Consolidated Statements of Income.

Note 7. Short-term and Long-term Borrowings

On June 11, 2019, Cal Water completed the sale and issuance of \$400.0 million in aggregate principal amount of First Mortgage Bonds (the bonds) in a private placement. The bonds consist of \$100.0 million of 3.40% bonds, series VVV, maturing June 11, 2029; \$100.0 million of 4.07% bonds, series WWW, maturing June 11, 2049; and \$200.0 million of 4.17% bonds, series YYY, maturing June 11, 2059. Interest on the bonds will accrue semi-annually and be payable in arrears. The bonds will rank equally with all of Cal Water's other First Mortgage Bonds and will be secured by liens on Cal Water's properties, subject to certain exceptions and permitted liens. Cal Water used the net proceeds from the sale of the bonds to pay down outstanding short-term borrowings and to redeem \$300.0 million of bond series UUU. The bonds were not registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

On March 29, 2019, the Company and Cal Water entered into certain syndicated credit agreements, which provide for unsecured revolving credit facilities of up to an initial aggregate amount of \$550.0 million for a term of five years. The revolving credit facilities amend, expand, and replace the Company's and its subsidiaries' prior credit facilities originally entered into on May 10, 2015. The new credit facilities extended the terms until March 29, 2024, and increased Cal Water's unsecured revolving line of credit. 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 \$400.0 million under its revolving credit facility. All borrowings must be repaid within 24 months unless a different period is required or authorized by the CPUC. Additionally, the credit facilities may be increased by up to an incremental \$150.0 million under the Cal Water facility and \$50.0 million under the Company facility, subject in each case to certain conditions. The proceeds from the revolving credit facilities may be used for working capital purposes, including the short-term financing of capital projects. Borrowings under the credit facilities typically have maturities varying between one and six months and will bear interest annually at a rate equal to (i) the base rate or (ii) the Eurodollar rate, plus an applicable margin of 0.650% to 0.875%, depending on the Company and its subsidiaries' consolidated total capitalization ratio.

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 line of credit were \$55.1 million as of September 30, 2019 and December 31, 2018. There were \$100.0 million and \$10.0 million of borrowings on the Cal Water line of credit as of September 30, 2019 and December 31, 2018, respectively. The average borrowing rate for borrowings on the Company and Cal Water lines of credit during the nine months ended September 30, 2019 was 3.38% compared to 2.88% for the same period last year.

Note 8. Income Taxes

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 is shown in the tables below:

	Three Months Ended September 30	
	2019	2018
Income tax expense	\$ 11,864	\$ 11,481

	Nine Months Ended September 30	
	2019	2018
Income tax expense	\$ 14,509	\$ 15,068

The income tax expense increased \$0.4 million to \$11.9 million for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018. The increase is due to an increase in pre-tax net income of \$6.6 million for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018.

The income tax expense decreased \$0.6 million to \$14.5 million for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. The decrease is due to higher income tax benefit for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018.

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The Company's 2019 effective tax rate, before discrete items, is estimated to be 22%.

For the year ended December 31, 2018, the Company recorded a re-measurement of its deferred tax balances (related mostly to timing differences for plant-related items). The final impact of the Tax Cuts and Jobs Act (TCJA) may differ from the recorded amounts, possibly materially, due to regulatory decisions that could differ from the Company's determination of how the impact of the TCJA are allocated between customers and shareholders. In addition, changes in interpretations, guidance on legislative intent, and any changes in accounting standards for income taxes in response to the TCJA could also impact the recorded amounts.

The Company is continuing to work with state regulators to finalize the customer net refund of \$107.0 million to ensure compliance with federal normalization rules and will record any adjustments based on state regulator's decisions.

The Company had unrecognized tax benefits of approximately \$10.6 million and \$9.7 million as of September 30, 2019 and 2018, respectively. Included in the balance of unrecognized tax benefits as of September 30, 2019 and 2018 are approximately \$3.1 million and \$2.9 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, 2019 and December 31, 2018:

	Recovery Period	September 30, 2019	December 31, 2018
<i>Regulatory Assets</i>			
Pension and retiree group health	Indefinitely	\$ 156,453	\$ 156,947
Property-related temporary differences (tax benefits flowed through to customers)	Indefinitely	100,943	99,376
Other accrued benefits	Indefinitely	21,183	20,588
Net WRAM and MCBA long-term accounts receivable	1-2 years	30,454	17,134
Asset retirement obligations, net	Indefinitely	19,619	18,197
Interim rates long-term accounts receivable	1 year	4,642	4,642
Tank coating	10 years	13,745	11,196
Recoverable property losses	10 years	5,539	1,275
Pension balancing account	1 year	20,158	16,494
Other components of net periodic benefit cost	Indefinitely	4,641	3,221
Other regulatory assets	Various	5,107	4,499
Total Regulatory Assets		\$ 382,484	\$ 353,569
<i>Regulatory Liabilities</i>			
Future tax benefits due to customers		\$ 180,207	\$ 180,205
Health care balancing account		4,315	3,516
Conservation program		5,659	6,880
Net WRAM and MCBA long-term payable		67	222
Tax accounting memorandum account		785	5,039
Cost of capital memorandum account		148	2,834
1,2,3 trichloropropane settlement proceeds		9,204	12,142
Other regulatory liabilities		272	437
Total Regulatory Liabilities		\$ 200,657	\$ 211,275

Short-term regulatory assets and liabilities are excluded from the above table.

The short-term regulatory assets were \$33.4 million as of September 30, 2019 and \$42.4 million as of December 31, 2018. As of September 30, 2019 and December 31, 2018, the short-term regulatory assets primarily consist of net WRAM and MCBA receivables.

The short-term portions of regulatory liabilities were \$6.9 million as of September 30, 2019 and \$12.2 million as of December 31, 2018. The short-term regulatory liabilities as of September 30, 2019, primarily consist of 1,2,3 trichloropropane (TCP) settlement proceeds, tax accounting memorandum account refunds, and cost of capital memorandum account refunds. As of December 31, 2018, the short-term regulatory liabilities primarily consist of TCP settlement proceeds and net WRAM and MCBA liability balances.

Note 10. Commitments and Contingencies

Commitments

The Company has significant commitments to purchase water from water wholesalers. These commitments are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Leases

The Company has operating and finance leases for water systems, offices, land easements, licenses, equipment, and other facilities. The leases generally have remaining lease terms of 1 year to 50 years, some of which include options to extend the lease for up to 25 years. The exercise of lease renewal options is at the Company's sole discretion. Most of the Company's lease agreements contain mutual termination options that require prior written notice by either lessee or lessor. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Certain leases include options to purchase the leased property. The depreciable life of the assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option that is reasonably certain of exercise. Leases with an initial term of 12 months or less are not recorded on the balance sheet as the Company applied the short-term lease exception allowed by the FASB guidance. Lease expense for these leases is recognized on a straight-line basis over the lease term. A subset of the Company's leases contains variable lease payments that depend on changes in the CPI.

The Company determines if an arrangement is a lease at contract inception. Generally, a lease agreement exists if the Company determines that the arrangement gives the Company control over the use of an identified asset and obtains substantially all of the benefits from the identified asset.

The right-of-use (ROU) assets that are recorded represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's operating leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The ROU asset and lease liability may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Variable lease payments that are based on changes in CPI are included in the measurement of ROU asset and lease liability on the basis of the rate at lease commencement. Subsequent changes to the payments as a result of changes to the CPI rate are recognized in the period in which the obligation of these payments is incurred.

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Supplemental balance sheet information related to leases was as follows:

	<u>As of September 30, 2019</u>
<i>Operating leases</i>	
Other assets	\$ 14,349
Accrued expenses and other liabilities	\$ 1,421
Regulatory liabilities and other	12,885
Total operating lease liabilities	<u>\$ 14,306</u>
<i>Finance leases</i>	
Utility plant	\$ 18,207
Accumulated depreciation and amortization	(9,352)
Net utility plant	<u>\$ 8,855</u>
Current maturities of long-term debt, net	\$ 670
Long-term debt, net	5,378
Total finance lease liabilities	<u>\$ 6,048</u>
<i>Weighted average remaining lease term</i>	
Operating leases	155 months
Finance leases	80 months
<i>Weighted average discount rate</i>	
Operating leases	3.7%
Finance leases	5.5%

The components of lease expense were as follows:

	<u>Three Months Ended September 30</u>	<u>Nine Months Ended September 30</u>
	<u>2019</u>	
Operating lease cost	\$ 490	\$ 1,368
<i>Finance lease cost:</i>		
Amortization of right-of-use assets	\$ 292	\$ 918
Interest on lease liabilities	85	264
Total finance lease cost	<u>\$ 377</u>	<u>\$ 1,182</u>
Short-term lease cost	\$ 543	\$ 716
Variable lease cost	66	198
Total lease cost	<u>\$ 1,476</u>	<u>\$ 3,464</u>

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Supplemental cash flow information related to leases was as follows:

	Nine Months Ended September 30	
	2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	1,322
Operating cash flows from finance leases		264
Financing cash flows from finance leases		508
Non-cash activities: right-of-use assets obtained in exchange for lease obligations:		
Operating leases		1,697
Finance leases		672

Maturities of lease liabilities as of September 30, 2019 are as follows:

Year Ending December 31,	Operating Leases		Finance Leases	
2019 (a)	\$	451	\$	245
2020		1,892		986
2021		1,673		987
2022		1,516		987
2023		1,396		1,506
2024		1,253		940
Thereafter		10,067		1,645
Total lease payments	\$	18,248	\$	7,296
Less imputed interest	\$	(3,942)	\$	(1,248)
Total	\$	14,306	\$	6,048

(a) Excludes payments made for the first nine months of 2019.

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 and under the previous lease accounting standard, minimum lease payments, as of December 31, 2018, under non-cancelable operating leases by period were expected to be as follows:

2019	\$	1,771
2020		1,709
2021		1,485
2022		1,355
2023		1,261
Thereafter		10,538
Total	\$	18,119

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 customers 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 and to request recovery of these costs in future filings.

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, 2019 and December 31, 2018, the Company recognized a liability of \$2.6 million and \$2.3 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 1.83%.

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

	September 30, 2019				
	Cost	Fair Value			Total
		Level 1	Level 2	Level 3	
Long-term debt, including current maturities, net	\$ 812,758	—	\$ 912,402	—	\$ 912,402
Advances for construction	190,272	—	79,818	—	79,818
Total	\$ 1,003,030	\$ —	\$ 992,220	\$ —	\$ 992,220

	December 31, 2018				
	Cost	Fair Value			Total
		Level 1	Level 2	Level 3	
Long-term debt, including current maturities, net	\$ 814,938	\$ —	\$ 849,551	\$ —	\$ 849,551
Advances for construction	186,342	—	77,204	—	77,204
Total	\$ 1,001,280	\$ —	\$ 926,755	\$ —	\$ 926,755

Note 12. Condensed Consolidating Financial Statements

On November 17, 2010, Cal Water issued \$100.0 million aggregate principal amount of 5.500% First Mortgage Bonds due 2040, all of which is fully and unconditionally guaranteed by the Company. As a result of this guarantee arrangement, 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, 2019 and December 31, 2018, the Condensed Consolidating Statements of Income for the three and nine months ended September 30, 2019 and 2018, and the Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2019 and 2018 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.

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of September 30, 2019
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	\$ 1,318	\$ 3,194,372	\$ 222,726	\$ (7,197)	\$ 3,411,219
Less accumulated depreciation and amortization	(1,083)	(1,004,387)	(64,654)	2,159	(1,067,965)
Net utility plant	235	2,189,985	158,072	(5,038)	2,343,254
Current assets:					
Cash and cash equivalents	2,408	39,187	9,662	—	51,257
Receivables and unbilled revenue	—	133,281	5,319	—	138,600
Receivables from affiliates	28,896	540	214	(29,650)	—
Other current assets	235	19,435	2,529	—	22,199
Total current assets	31,539	192,443	17,724	(29,650)	212,056
Other assets:					
Regulatory assets	—	377,962	4,522	—	382,484
Investments in affiliates	756,177	—	—	(756,177)	—
Long-term affiliate notes receivable	26,288	—	—	(26,288)	—
Other assets	460	80,480	4,692	(214)	85,460
Total other assets	782,925	458,442	9,214	(782,679)	467,944
TOTAL ASSETS	\$ 814,699	\$ 2,840,870	\$ 185,010	\$ (817,367)	\$ 3,023,254
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders' equity	\$ 757,795	\$ 679,037	\$ 82,366	\$ (761,403)	\$ 757,795
Affiliate long-term debt	—	—	26,288	(26,288)	—
Long-term debt, net	—	807,019	459	—	807,478
Total capitalization	757,795	1,486,056	109,113	(787,691)	1,565,273
Current liabilities:					
Current maturities of long-term debt, net	—	5,122	158	—	5,280
Short-term borrowings	55,100	100,000	—	—	155,100
Payables to affiliates	—	4,906	24,744	(29,650)	—
Accounts payable	—	103,748	4,845	—	108,593
Accrued expenses and other liabilities	329	60,621	4,021	—	64,971
Total current liabilities	55,429	274,397	33,768	(29,650)	333,944
Unamortized investment tax credits	—	1,649	—	—	1,649
Deferred income taxes	1,475	224,549	3,213	—	229,237
Pension and postretirement benefits other than pensions	—	203,557	—	(26)	203,557
Regulatory liabilities and other	—	253,843	6,953	—	260,812
Advances for construction	—	189,781	491	—	190,272
Contributions in aid of construction	—	207,038	31,472	—	238,510
TOTAL CAPITALIZATION AND LIABILITIES	\$ 814,699	\$ 2,840,870	\$ 185,010	\$ (817,367)	\$ 3,023,254

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2018
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	\$ 1,318	\$ 3,021,437	\$ 213,888	\$ (7,197)	\$ 3,229,446
Less accumulated depreciation and amortization	(1,013)	(938,072)	(59,735)	2,097	(996,723)
Net utility plant	305	2,083,365	154,153	(5,100)	2,232,723
Current assets:					
Cash and cash equivalents	3,779	33,763	9,634	—	47,176
Receivables and unbilled revenue	126	118,632	4,201	—	122,959
Receivables from affiliates	21,318	4,074	61	(25,453)	—
Other current assets	80	16,907	1,580	—	18,567
Total current assets	25,303	173,376	15,476	(25,453)	188,702
Other assets:					
Regulatory assets	—	349,414	4,155	—	353,569
Investments in affiliates	733,156	—	—	(733,156)	—
Long-term affiliate notes receivable	27,829	—	—	(27,829)	—
Other assets	133	58,959	3,821	(203)	62,710
Total other assets	761,118	408,373	7,976	(761,188)	416,279
TOTAL ASSETS	\$ 786,726	\$ 2,665,114	\$ 177,605	\$ (791,741)	\$ 2,837,704
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders' equity	\$ 730,157	\$ 659,340	79,093	\$ (738,433)	\$ 730,157
Affiliate long-term debt	—	—	27,828	(27,828)	—
Long-term debt, net	—	709,444	583	—	710,027
Total capitalization	730,157	1,368,784	107,504	(766,261)	1,440,184
Current liabilities:					
Current maturities of long-term debt, net	—	104,664	247	—	104,911
Short-term borrowings	55,100	10,000	—	—	65,100
Payables to affiliates	17	488	24,948	(25,453)	—
Accounts payable	—	92,310	3,270	—	95,580
Accrued expenses and other liabilities	107	53,655	1,813	—	55,575
Total current liabilities	55,224	261,117	30,278	(25,453)	321,166
Unamortized investment tax credits	—	1,649	—	—	1,649
Deferred income taxes	1,376	210,052	1,648	(43)	213,033
Pension and postretirement benefits other than pensions	—	193,538	—	—	193,538
Regulatory and other liabilities	(31)	250,720	5,817	16	256,522
Advances for construction	—	185,843	499	—	186,342
Contributions in aid of construction	—	193,411	31,859	—	225,270
TOTAL CAPITALIZATION AND LIABILITIES	\$ 786,726	\$ 2,665,114	\$ 177,605	\$ (791,741)	\$ 2,837,704

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the three months ended September 30, 2019
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$ 219,261	\$ 13,276	\$ —	\$ 232,537
Operating expenses:					
Operations:					
Water production costs	—	78,048	2,520	—	80,568
Administrative and general	—	24,498	2,281	—	26,779
Other operations	—	22,872	1,825	(147)	24,550
Maintenance	—	6,823	242	—	7,065
Depreciation and amortization	23	20,770	1,501	(21)	22,273
Income tax (benefit) expense	(132)	11,332	779	215	12,194
Property and other taxes	—	6,620	921	—	7,541
Total operating (income) expenses	(109)	170,963	10,069	47	180,970
Net operating income	109	48,298	3,207	(47)	51,567
Other income and expenses:					
Non-regulated revenue	599	3,865	399	(745)	4,118
Non-regulated expenses	—	(3,907)	(444)	—	(4,351)
Other components of net periodic benefit cost	—	(1,784)	(73)	—	(1,857)
Allowance for equity funds used during construction	—	1,868	—	—	1,868
Income tax (expense) benefit on other income and expenses	(168)	268	22	208	330
Net other income (loss)	431	310	(96)	(537)	108
Interest:					
Interest expense	450	9,820	608	(599)	10,279
Allowance for borrowed funds used during construction	—	(954)	(74)	—	(1,028)
Net interest expense	450	8,866	534	(599)	9,251
Equity earnings of subsidiaries	42,334	—	—	(42,334)	—
Net income	\$ 42,424	\$ 39,742	\$ 2,577	\$ (42,319)	\$ 42,424

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the three months ended September 30, 2018
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$ 208,695	\$ 12,593	\$ —	\$ 221,288
Operating expenses:					
Operations:					
Water production costs	—	76,317	2,501	—	78,818
Administrative and general	—	23,878	2,615	—	26,493
Other operations	—	20,271	1,816	(144)	21,943
Maintenance	—	6,538	230	—	6,768
Depreciation and amortization	23	19,632	1,376	(22)	21,009
Income tax (benefit) expense	(142)	10,435	1,271	222	11,786
Property and other taxes	—	6,205	937	—	7,142
Total operating (income) expenses	(119)	163,276	10,746	56	173,959
Net operating income	119	45,419	1,847	(56)	47,329
Other income and expenses:					
Non-regulated revenue	628	4,589	259	(773)	4,703
Non-regulated expenses	—	(4,675)	(222)	—	(4,897)
Other components of net periodic benefit cost	—	(1,834)	(141)	—	(1,975)
Allowance for equity funds used during construction	—	1,023	—	—	1,023
Income tax (expense) benefit on other income and expenses	(176)	252	13	216	305
Net other income (loss)	452	(645)	(91)	(557)	(841)
Interest:					
Interest expense	486	10,443	574	(628)	10,875
Allowance for borrowed funds used during construction	—	(522)	(38)	—	(560)
Net interest expense	486	9,921	536	(628)	10,315
Equity earnings of subsidiaries	36,088	—	—	(36,088)	—
Net income	\$ 36,173	\$ 34,853	\$ 1,220	\$ (36,073)	\$ 36,173

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the nine months ended September 30, 2019
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$ 502,785	\$ 34,894	\$ —	\$ 537,679
Operating expenses:					
Operations:					
Water production costs	—	183,617	7,178	—	190,795
Administrative and general	23	73,908	7,379	—	81,310
Other operations	—	59,851	5,499	(437)	64,913
Maintenance	—	18,469	743	—	19,212
Depreciation and amortization	70	62,471	4,488	(62)	66,967
Income tax (benefit) expense	(411)	12,019	1,265	651	13,524
Property and other taxes	—	19,431	2,471	—	21,902
Total operating (income) expenses	(318)	429,766	29,023	152	458,623
Net operating income	318	73,019	5,871	(152)	79,056
Other income and expenses:					
Non-regulated revenue	1,826	13,374	1,212	(2,263)	14,149
Non-regulated expenses	—	(9,610)	(860)	—	(10,470)
Other components of net periodic benefit cost	—	(4,177)	(131)	—	(4,308)
Allowance for equity funds used during construction	—	5,087	—	—	5,087
Income tax expense on other income and expenses	(511)	(1,028)	(79)	633	(985)
Net other income	1,315	3,646	142	(1,630)	3,473
Interest:					
Interest expense	1,376	32,141	1,841	(1,826)	33,532
Allowance for borrowed funds used during construction	—	(2,592)	(191)	—	(2,783)
Net interest expense	1,376	29,549	1,650	(1,826)	30,749
Equity earnings of subsidiaries	51,523	—	—	(51,523)	—
Net income	\$ 51,780	\$ 47,116	\$ 4,363	\$ (51,479)	\$ 51,780

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the nine months ended September 30, 2018
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$ 499,173	\$ 31,606	\$ —	\$ 530,779
Operating expenses:					
Operations:					
Water production costs	—	185,149	6,648	—	191,797
Administrative and general	—	69,531	7,664	—	77,195
Other operations	—	55,626	5,117	(436)	60,307
Maintenance	—	16,974	622	—	17,596
Depreciation and amortization	70	58,909	3,763	(65)	62,677
Income tax (benefit) expense	(342)	15,081	1,591	620	16,950
Property and other taxes	—	17,894	2,359	—	20,253
Total operating (income) expenses	(272)	419,164	27,764	119	446,775
Net operating income	272	80,009	3,842	(119)	84,004
Other income and expenses:					
Non-regulated revenue	1,716	13,572	831	(2,152)	13,967
Non-regulated expenses	—	(15,943)	(506)	—	(16,449)
Other components of net periodic benefit cost	—	(6,618)	(366)	—	(6,984)
Allowance for equity funds used during construction	—	2,644	—	—	2,644
Income tax (expense) benefit on other income and expenses	(480)	1,776	(16)	602	1,882
Net other income (loss)	1,236	(4,569)	(57)	(1,550)	(4,940)
Interest:					
Interest expense	1,155	29,095	1,673	(1,716)	30,207
Allowance for borrowed funds used during construction	—	(1,250)	(109)	—	(1,359)
Net interest expense	1,155	27,845	1,564	(1,716)	28,848
Equity earnings of subsidiaries	49,863	—	—	(49,863)	—
Net income	\$ 50,216	\$ 47,595	\$ 2,221	\$ (49,816)	\$ 50,216

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the nine months ended September 30, 2019
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income	\$ 51,780	\$ 47,116	\$ 4,363	\$ (51,479)	\$ 51,780
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity earnings of subsidiaries	(51,523)	—	—	51,523	—
Dividends received from affiliates	28,507	—	—	(28,507)	—
Depreciation and amortization	70	63,975	4,539	(62)	68,522
Changes in value of life insurance contracts	—	(3,433)	—	—	(3,433)
Allowance for equity funds used during construction	—	(5,087)	—	—	(5,087)
Changes in operating assets and liabilities	194	(6,744)	1,509	—	(5,041)
Other changes in noncurrent assets and liabilities	5,239	14,560	1,785	18	21,602
Net cash provided by operating activities	34,267	110,387	12,196	(28,507)	128,343
Investing activities:					
Utility plant expenditures	—	(185,883)	(9,059)	—	(194,942)
Changes in affiliate advances	(3,199)	3,534	(320)	(15)	—
Issuance of affiliate short-term borrowings	(4,300)	—	—	4,300	—
Reduction of affiliates long-term debt	1,462	—	—	(1,462)	—
Purchase of life insurance contracts	—	(2,216)	—	—	(2,216)
Net cash used in investing activities	(6,037)	(184,565)	(9,379)	2,823	(197,158)
Financing Activities:					
Short-term borrowings	—	210,000	—	—	210,000
Repayment of short-term borrowings	—	(120,000)	—	—	(120,000)
Changes in affiliate advances	(17)	4,419	(4,417)	15	—
Proceeds from affiliate short-term borrowings	—	—	4,300	(4,300)	—
Repayment of affiliates long-term borrowings	—	—	(1,462)	1,462	—
Issuance of long term debt, net of expenses	—	398,431	—	—	398,431
Repayment of long-term debt	—	(401,417)	(213)	—	(401,630)
Advances and contributions in aid of construction	—	21,176	90	—	21,266
Refunds of advances for construction	—	(5,560)	—	—	(5,560)
Repurchase of common stock	(2,355)	—	—	—	(2,355)
Issuance of common stock	1,278	—	—	—	1,278
Dividends paid to non-affiliates	(28,507)	—	—	—	(28,507)
Dividends paid to affiliates	—	(27,419)	(1,088)	28,507	—
Net cash (used in) provided by financing activities	(29,601)	79,630	(2,790)	25,684	72,923
Change in cash, cash equivalents, and restricted cash	(1,371)	5,452	27	—	4,108
Cash, cash equivalents, and restricted cash at beginning of period	3,779	34,238	9,698	—	47,715
Cash, cash equivalents, and restricted cash at end of period	\$ 2,408	\$ 39,690	\$ 9,725	—	\$ 51,823

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the nine months ended September 30, 2018
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income	\$ 50,216	\$ 47,595	\$ 2,221	\$ (49,816)	\$ 50,216
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity earnings of subsidiaries	(49,863)	—	—	49,863	—
Dividends received from affiliates	27,029	—	—	(27,029)	—
Depreciation and amortization	70	60,298	3,828	(65)	64,131
Changes in value of life insurance contracts	—	124	—	—	124
Allowance for equity funds used during construction	—	(2,644)	—	—	(2,644)
Changes in operating assets and liabilities	(281)	6,135	1,178	—	7,032
Other changes in noncurrent assets and liabilities	2,518	(3,881)	1,989	18	644
Net cash provided by operating activities	29,689	107,627	9,216	(27,029)	119,503
Investing activities:					
Utility plant expenditures	4	(205,218)	(7,642)	—	(212,856)
Changes in affiliate advances	(975)	3,198	(269)	(1,954)	—
Issuance of affiliate short-term borrowings	(23,700)	—	—	23,700	—
Reduction of affiliates long-term debt	1,224	—	—	(1,224)	—
Life insurance proceeds	—	3,491	—	—	3,491
Purchase of life insurance contracts	—	(4,925)	—	—	(4,925)
Net cash used in investing activities	(23,447)	(203,454)	(7,911)	20,522	(214,290)
Financing Activities:					
Short-term borrowings	20,000	121,000	—	—	141,000
Repayment of short-term borrowings	—	(341,000)	—	—	(341,000)
Changes in affiliate advances	—	1,129	(3,083)	1,954	—
Proceeds from affiliate short-term borrowings	—	20,000	3,700	(23,700)	—
Repayment of affiliates long-term borrowings	—	—	(1,224)	1,224	—
Issuance of long-term debt, net of expenses	—	299,383	—	—	299,383
Repayment of long-term debt	—	(12,299)	(200)	—	(12,499)
Advances and contributions in aid for construction	—	13,288	342	—	13,630
Refunds of advances for construction	—	(5,452)	(10)	—	(5,462)
Repurchase of common stock	(1,496)	—	—	—	(1,496)
Dividends paid to non-affiliates	(27,029)	—	—	—	(27,029)
Dividends paid to affiliates	—	(25,959)	(1,070)	27,029	—
Net cash (used in) provided by financing activities	(8,525)	70,090	(1,545)	6,507	66,527
Change in cash, cash equivalents, and restricted cash	(2,283)	(25,737)	(240)	—	(28,260)
Cash, cash equivalents, and restricted cash at beginning of period	4,728	81,453	9,171	—	95,352
Cash, cash equivalents, and restricted cash at end of period	\$ 2,445	\$ 55,716	\$ 8,931	—	\$ 67,092

Note 13. Immaterial Restatement of Prior Period Financial Statements

Subsequent to the issuance of the Company's Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2018, the Company identified an immaterial computational error related to the amount of authorized revenue recorded pursuant to the Company's pension and health care cost recovery balancing accounts. In accordance with the 2015 GRC, the Company adjusts the revenue and corresponding balancing accounts quarterly to reflect actual pension and health care costs, subject to certain limitations prescribed by the 2015 GRC. The error does not impact the billings to customers or the cash collected from customers in this GRC period, which ends on December 31, 2019. As provided for in the 2015 GRC, the amounts included in the balancing account will be recovered from or refunded to customers during the next GRC period.

The Company corrected the error in the accompanying Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2018. The Company believes the correction of the error is immaterial to the previously issued Condensed Consolidated Financial Statements.

The corrections to the Company's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2018 were as follows:

Condensed Consolidated Statements of Income

	For the three months ended September 30, 2018		
	As Previously Reported	Corrections	As Corrected
	(In thousands, except per share data)		
Operating revenue	\$ 218,983	\$ 2,305	\$ 221,288
Operating expenses:			
Income taxes	11,262	524	11,786
Total operating expenses	173,435	524	173,959
Net operating income	45,548	1,781	47,329
Net income	\$ 34,392	\$ 1,781	\$ 36,173
Earnings per share:			
Basic	\$ 0.72	\$ 0.03	\$ 0.75
Diluted	\$ 0.72	\$ 0.03	\$ 0.75

	For the nine months ended September 30, 2018		
	As Previously Reported	Corrections	As Corrected
	(In thousands, except per share data)		
Operating revenue	\$ 523,862	\$ 6,917	\$ 530,779
Operating expenses:			
Income taxes	15,380	1,570	16,950
Total operating expenses	445,205	1,570	446,775
Net operating income	78,657	5,347	84,004
Net income	\$ 44,869	\$ 5,347	\$ 50,216
Earnings per share:			
Basic	\$ 0.93	\$ 0.11	\$ 1.04
Diluted	\$ 0.93	\$ 0.11	\$ 1.04

The corrections to the Company's retained earnings and total stockholders' equity as of January 1, 2018, March 31, 2018, June 30, 2018, and September 30, 2018 were as follows:

	January 1, 2018		
	As Previously Reported	Corrections	As Corrected
	(In thousands)		
Retained earnings	\$ 356,753	\$ 5,759	\$ 362,512
Total common stockholders' equity	693,462	5,759	699,221

	March 31, 2018		
	As Previously Reported	Corrections	As Corrected
	(In thousands)		
Retained earnings	\$ 345,205	\$ 7,542	\$ 352,747
Total common stockholders' equity	681,311	7,542	688,853

	June 30, 2018		
	As Previously Reported	Corrections	As Corrected
	(In thousands)		
Retained earnings	\$ 349,213	\$ 9,325	\$ 358,538
Total common stockholders' equity	685,932	9,325	695,257

	September 30, 2018		
	As Previously Reported	Corrections	As Corrected
	(In thousands)		
Retained earnings	\$ 374,593	\$ 11,106	\$ 385,699
Total common stockholders' equity	712,034	11,106	723,140

The corrections to the Company's Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2018 were as follows:

Condensed Consolidated Statement of Cash Flows

	For the nine months ended September 30, 2018		
	As Previously Reported	Corrections	As Corrected
	(In thousands)		
Operating activities:			
Net income	\$ 44,869	\$ 5,347	\$ 50,216
Other changes in noncurrent assets and liabilities	5,991	(5,347)	644
Net cash provided by operating activities	\$ 119,503	\$ —	\$ 119,503

Note 14. Subsequent Event

California GRC filing

Subsequent to the issuance of the Company's Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2018, Cal Water jointly filed a formal settlement agreement in its 2018 GRC with the Public Advocates Office of the CPUC covering the majority of open matters in the case on October 8, 2019. The largest component of the GRC is Cal Water's Infrastructure Improvement Plan for 2019-2021. The settlement details investment plans that Cal Water and the Public Advocates Office agree should be made to Cal Water's water infrastructure to continue providing safe, reliable water service to Cal Water customers and communities. The CPUC will consider, but is not required to adopt, the settlement agreement. If the CPUC approves the settlement agreement, Cal Water would be authorized to include in rates \$609.0 million to \$628.0 million of new projects throughout the state in 2019 to 2021, along with approximately \$200.0 million for completion of additional projects begun in 2018 and prior periods. Included in these figures are \$148.0 million of advice letter authorizations, which would not be included in rates until related projects are completed. Cal Water anticipates that if the settlement were adopted, it would plan to make capital investments of approximately \$809.0 million to \$828.0 million in the 2019-2021 period. The settlement proposes, in part, an average water main replacement rate of 0.76% annually company-wide by 2021, with higher replacement rates in some areas. A final decision on the case is expected in late 2019, with new rates going into effect in January of 2020. Cal Water previously filed a request for interim rates beginning January 1, 2020 in the event a final decision is unexpectedly delayed.

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. 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:

- ability to invest or apply the proceeds from the issuance of common stock in an accretive manner;
- governmental and regulatory commissions' decisions, including decisions on proper disposition of property;
- consequences of eminent domain actions relating to our water systems;
- changes in regulatory commissions' policies and procedures;
- the timeliness of regulatory commissions' actions concerning rate relief and other actions;
- increased risk of inverse condemnation losses as a result of climate conditions;
- inability to renew leases to operate water systems owned by others 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, especially as a result of Public Safety Power Shutoff (PSPS) programs for the 2019 fire season as we further develop approaches to manage that risk;
- housing and customer growth trends;

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- 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;
- the adequacy of our efforts to mitigate physical and cyber security risk and threats;
- the ability of our enterprise risk management processes to identify or address risks adequately;
- labor relations matters as we negotiate with unions;
- 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 and the adequacy of our emergency preparedness; and
- the risks set forth in “Risk Factors” included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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 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 Company's Annual Report on Form 10-K for the year ended December 31, 2018. They include:

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

For the nine months ended September 30, 2019, 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 2019 OPERATIONS COMPARED TO THIRD QUARTER 2018 OPERATIONS Dollar amounts in thousands unless otherwise stated

Overview

As discussed further in Note 13, the Company corrected an immaterial computational error that understated revenue for the three months ended September 30, 2018.

Net income for the three months ended September 30, 2019 was \$42.4 million or \$0.88 earnings per diluted common share, compared to net income of \$36.2 million or \$0.75 earnings per diluted common share for the three months ended September 30, 2018.

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The \$6.2 million increase in net income was primarily due to general rate increases of \$6.1 million, a \$5.5 million increase in unbilled revenue accrual, a reduction of \$1.3 million in business development expenses, and \$0.8 million increase in allowance for equity funds used during construction. These factors were partially offset by increases in operating expenses of \$1.3 million for depreciation and amortization, \$1.0 million in employee wages, \$0.8 million in costs attributable to electric utilities' PSPS programs and wildfire management, and \$0.4 million in property taxes.

Unbilled revenue accrual is outside the Company's immediate control. The quarter's increase in unbilled revenue mirrored the accrual reduction from the first two quarters of 2019. Also outside the Company's control this quarter was a \$0.4 million decrease in unrealized gain on certain benefit plan investments. The change in the Company's unbilled revenue accrual was relatively consistent with the previous year.

Operating Revenue

Operating revenue increased \$11.2 million, or 5.1%, to \$232.5 million in the third quarter of 2019 as compared to the third quarter of 2018. The factors that impacted the operating revenue for the third quarter of 2019 as compared to the third quarter of 2018 are as follows:

Net change due to rate changes, usage, and other (1)	\$	12,874
MCBA Revenue (2)		(395)
Other balancing account revenue (3)		1,454
Deferral of revenue (4)		(2,684)
Net operating revenue increase	\$	<u>11,249</u>

1. The net change due to rate changes, usage, and other in the above table was mainly driven by rate increases and a \$5.5 million increase in accrued unbilled revenue. The components of the rate increases are as follows:

General rate case	761
Escalation rate increases	5,218
Purchased water and pump tax offsets	1,743
Rate base offsets	162
Total increase in rates	\$ <u>7,884</u>

2. The MCBA revenue decrease resulted from a decrease in actual water production costs relative to adopted water production costs in the third quarter of 2019 as compared to the third quarter of 2018. The actual water production costs relative to adopted decreased as a result of a decrease in customer consumption in the third quarter of 2019 as compared to the third quarter of 2018. As required by the MCBA mechanism, the decrease in actual water production costs relative to adopted 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 increase in revenue was mainly due to an increase in actual conservation expenses relative to adopted in the third quarter of 2019 as compared to the third quarter of 2018, which was partially offset by a decrease in actual pension and health care expenses relative to adopted in the third quarter of 2019 as compared to the third quarter of 2018.
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 third quarter of 2019 as compared to the third quarter of 2018 due to a decline in actual customer usage relative to adopted customer usage in the third quarter of 2019 as compared to the third quarter of 2018.

Total Operating Expenses

Total operating expenses increased \$7.0 million, or 4.0%, to \$181.0 million in the third quarter of 2019, as compared to \$174.0 million in the third quarter of 2018.

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Water production costs consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 44.5% of total operating expenses in the third quarter of 2019, as compared to 45.3% of total operating expenses in the third quarter of 2018. Water production costs increased 2.2% in the third quarter of 2019 as compared to the same period last year mainly due to increased rates from our purchased water wholesalers.

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

	Three Months Ended September 30	
	2019	2018
Well production	44 %	47 %
Purchased	51 %	49 %
Surface	5 %	4 %
Total	100 %	100 %

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

	Three Months Ended September 30		
	2019	2018	Change
Purchased water	\$ 66,483	\$ 64,578	\$ 1,905
Purchased power	10,633	10,488	145
Pump taxes	3,452	3,752	(300)
Total	\$ 80,568	\$ 78,818	\$ 1,750

Administrative and general and other operations expenses increased \$2.9 million to \$51.3 million in the third quarter of 2019, primarily due to increases of \$2.2 million in conservation program costs, \$0.9 million of outside services, \$0.7 million of GRC settlement and asset impairment costs, \$0.6 million in employee wages, and \$0.5 million of costs attributable to electric utilities' PSPS programs and wildfire management, which were partially offset by a \$2.2 million deferral of costs associated with deferred revenues, and a \$1.0 million decrease in health care costs. Changes in employee pension benefits and water conservation program costs for regulated California operations generally do not affect earnings, as the Company is allowed by the CPUC to record these costs in balancing accounts for future recovery, creating a corresponding change to revenue. Employee and retiree medical expenses are recovered in rates through a balancing account authorized in the 2015 GRC, such that revenues are recovered up to 85% of the variance between adopted and recorded expenses. At September 30, 2019, there were 1,198 employees and at September 30, 2018, there were 1,176 employees.

Maintenance expense increased \$0.3 million, or 4.4%, to \$7.1 million in the third quarter of 2019, as compared to \$6.8 million in the third quarter of 2018, mostly due to increased costs of \$0.3 million for wildfire management.

Depreciation and amortization expense increased \$1.3 million, or 6.0%, to \$22.3 million in the third quarter of 2019, as compared to \$21.0 million in the third quarter of 2018, primarily due to capital additions.

Income taxes increased \$0.4 million, or 3.5%, to \$12.2 million in the third quarter of 2019, as compared to \$11.8 million in the third quarter of 2018, due to an increase in operating income. The Company's estimated combined effective income tax rate for 2019 is 22%.

Property and other taxes increased \$0.4 million, or 5.6%, to \$7.5 million in the third quarter of 2019, as compared to \$7.1 million in the third quarter of 2018, mostly due to an increase in assessed property values.

Other Income and Expenses

Net other income increased \$0.9 million in the third quarter of 2019, mostly due to a \$1.3 million decrease in business development expenses and a \$0.8 million increase in allowance for equity funds used during construction which was partially offset by the non-recurrence of a \$0.5 million benefit from Company-owned life insurance which occurred in 2018 and a \$0.4 million decrease in unrealized gain on certain benefit plan investments.

Interest Expense

Net interest expense decreased \$1.0 million, or 10.3%, to \$9.3 million in the third quarter of 2019, as compared to \$10.3 million in the third quarter of 2018. The decrease was due primarily to an increase in capitalized interest and reduced interest rates resulting from the refinancing of \$300.0 million of first mortgage bonds in 2019.

RESULTS OF THE NINE MONTHS ENDED SEPTEMBER 30, 2019 OPERATIONS
 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2018 OPERATIONS
 Dollar amounts in thousands unless otherwise stated

Overview

As discussed further in Note 13, the Company corrected an immaterial computational error that understated revenue for the nine months ended September 30, 2018.

Net income for the nine months ended September 30, 2019 was \$51.8 million or \$1.08 earnings per diluted common share, compared to net income of \$50.2 million or \$1.04 earnings per diluted common share for the nine months ended September 30, 2018.

The \$1.6 million increase in net income was driven primarily by \$15.2 million of general rate increases, a \$5.0 million reduction in business development expenses, a \$3.6 million increase in unrealized income from certain benefit plan investments due to market conditions, and a \$2.4 million increase in allowance for equity funds used during construction. These were partially offset by increased operating expenses of \$11.8 million, increased net interest expenses of \$1.9 million, \$1.6 million decrease in benefit from Company owned life insurance, and a \$1.4 million reduction in unbilled revenue accrual.

Operating expense changes included increases of \$4.3 million in depreciation and amortization, \$4.2 million in employee wages, \$2.7 million in outside services, \$1.6 million in property taxes, and \$1.1 million of costs attributable to electric utilities' PSPS programs and wildfire management.

Operating Revenue

Operating revenue increased \$6.9 million, or 1.3%, to \$537.7 million in the first nine months of 2019 as compared to the first nine months of 2018. The factors that impacted the operating revenue for the first nine months of 2019 as compared to 2018 are as follows:

Net change due to rate changes, usage, and other (1)	\$ 17,388
MCBA Revenue (2)	(7,313)
Other balancing account revenue (3)	1,369
Deferral of revenue (4)	(4,544)
Net operating revenue increase	<u>\$ 6,900</u>

- The net change due to rate changes, usage, and other in the above table was mainly driven by rate increases, which was partially offset by a \$1.4 million decrease in accrued unbilled revenue. The components of the rate increases are as follows:

General rate case	\$ 1,837
Escalation rate increases	12,251
Purchased water and pump tax offsets	4,302
Rate base offsets	1,141
Total increase in rates	<u>\$ 19,531</u>

- The MCBA revenue decrease resulted from a decrease in actual water production costs relative to adopted water production costs in the first nine months of 2019 as compared to the first nine months of 2018. The actual water production costs decreased as a result of a decrease in customer consumption in the first nine months of 2019 as compared to the first nine months of 2018. As required by the MCBA mechanism, the decrease in actual water production costs relative to adopted water production costs in California also decreased operating revenue for the same amount.

- 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 an increase in actual conservation expenses relative to adopted in the first nine months of 2019 as compared to the first nine months of 2018, which was partially offset by a decrease in actual pension expenses relative to adopted in the first nine months of 2019 as compared to the first nine months of 2018.
- 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 2019 as compared to the first nine months of 2018 due to a decline in actual customer usage relative to adopted customer usage in the first nine months of 2019 as compared to the first nine months of 2018.

Total Operating Expenses

Total operating expenses increased \$11.8 million, or 2.7%, to \$458.6 million in the first nine months of 2019, as compared to \$446.8 million in the first nine months of 2018.

Water production costs consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 41.6% of total operating expenses in the first nine months of 2019, as compared to 42.9% of total operating expenses in the first nine months of 2018. Water production costs decreased 0.5% in the first nine months of 2019 as compared to the same period last year mainly due to a decrease in customer usage offset by increased rates from our purchased water wholesalers.

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

	Nine Months Ended September 30	
	2019	2018
Well production	45 %	47 %
Purchased	50 %	49 %
Surface	5 %	4 %
Total	100 %	100 %

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

	Nine Months Ended September 30		
	2019	2018	Change
Purchased water	\$ 158,369	\$ 157,062	\$ 1,307
Purchased power	23,734	23,830	(96)
Pump taxes	8,692	10,905	(2,213)
Total	\$ 190,795	\$ 191,797	\$ (1,002)

Administrative and general and other operations expenses increased \$8.7 million, or 6.3%, to \$146.2 million in the first nine months of 2019, as compared to \$137.5 million in the first nine months of 2018. The increase was due primarily to increases of \$4.4 million in conservation program costs, \$3.5 million in employee wages, \$2.7 million of outside services, \$1.3 million of software maintenance costs, \$0.8 million of costs attributable to electric utilities' PSPS programs and wildfire management, which were partially offset by a reduction of \$3.8 million of costs associated with deferred revenue and a \$1.6 million decrease in employee pension benefit and retiree medical costs. Changes in employee pension benefits and water conservation program costs for regulated California operations generally do not affect earnings, as the Company is allowed by the CPUC to record these costs in balancing accounts for future recovery, creating a corresponding change to revenue. Employee and retiree medical expenses are recovered in rates through a balancing account authorized in the 2015 GRC, such that revenues are recovered up to 85% of the variance between adopted and recorded expenses.

Maintenance expense increased \$1.6 million, or 9.2%, to \$19.2 million in the first nine months of 2019, as compared to \$17.6 million in the first nine months of 2018, mostly due to repair cost increases in reservoirs, tanks, and structures and \$0.3 million of costs for wildfire management.

Depreciation and amortization expense increased \$4.3 million, or 6.8%, to \$67.0 million in the first nine months of 2019, as compared to \$62.7 million in the first nine months of 2018, mostly due to capital additions.

Income taxes decreased \$3.5 million, or 20.22%, to \$13.5 million in the first nine months of 2019, as compared to \$17.0 million in the first nine months of 2018. The decrease was mainly due to a decrease in operating income. The Company's estimated combined effective income tax rate for 2019 is 22.0%.

Property and other taxes increased \$1.6 million, or 8.1%, to \$21.9 million in the first nine months of 2019, as compared to \$20.3 million in the first nine months of 2018, due primarily to an increase in assessed property values.

Other Income and Expenses

Net other income increased \$8.4 million to \$3.5 million in the first nine months of 2019, as compared to a net other loss of \$4.9 million in the first nine months of 2018, due primarily to a \$5.0 million decrease of business development expenses, a \$3.6 million increase in the unrealized gain from certain benefit plan investments due to market conditions, and a \$2.4 million increase in allowance for equity funds used during construction, which was partially offset by a \$1.6 million decrease in benefit from Company-owned life insurance.

Interest Expense

Net interest expense increased \$1.9 million, or 6.6%, to \$30.7 million in the first nine months of 2019, as compared to \$28.8 million in the first nine months of 2018. The increase was due primarily to an increase in financing for capital investments and operations.

REGULATORY MATTERS

2019 California Regulatory Activity

California GRC filing

On October 8, 2019, Cal Water jointly filed a formal settlement agreement for its 2018 GRC with the Public Advocates Office of the CPUC covering the majority of open matters in the case. The largest component of the GRC is Cal Water's Infrastructure Improvement Plan for 2019-2021. The settlement details investment plans that Cal Water and the Public Advocates Office agree should be made to Cal Water's water infrastructure to continue providing safe, reliable water service to Cal Water customers and communities. The CPUC will consider, but is not required to adopt, the settlement agreement. If the CPUC approves the settlement agreement, Cal Water would be authorized to include in rates \$609.0 million to \$628.0 million of new projects throughout the state in 2019 to 2021, along with approximately \$200.0 million for completion of additional projects begun in 2018 and prior periods. Included in these figures are \$148.0 million of advice letter authorizations, which would not be included in rates until related projects are completed. Cal Water anticipates that if the settlement were adopted, it would plan to make capital investments of approximately \$809.0 million to \$828.0 million in the 2019-2021 period. The settlement proposes, in part, an average water main replacement rate of 0.76% annually company-wide by 2021, with higher replacement rates in some areas. A final decision on the case is expected in late 2019, with new rates going into effect in January of 2020. Cal Water previously filed a request for interim rates beginning January 1, 2020 in the event a final decision is unexpectedly delayed.

City of Hawthorne GRC filing

Cal Water operates the City of Hawthorne's water system under a lease agreement that was originally entered into on August 9, 2011. As part of the agreement, Cal Water can request rate increases but requires city council approval for any rate request to take effect. Cal Water has not increased rates since 2017 and Cal Water has seen significant increases in costs since then. Cal Water requested rate increases of 11.7% in 2020, 11.6% in 2021, and 11.6% in 2022.

On August 27, 2019, the rate increases were approved via resolution 8123. The new rates will become effective on January 1, 2020 and January 1 of each year thereafter.

Cost of Capital Decision

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. On March 22, 2018, the CPUC adopted a revised decision in the cost of capital proceeding for Cal Water and three other water utilities for the years 2018, 2019, and 2020, establishing for Cal Water a 9.20% return on equity and a 5.51% cost of debt, with a capital structure of 46.60% long-term debt and 53.40% common equity, and an authorized return on rate base of 7.48%, compared with Cal Water's prior return on equity of 9.43%, cost of debt of 6.24%, and authorized return on rate base of 7.94%. The adopted capital structure did not change. The adopted returns on debt and equity reduced Cal Water's 2018 adopted revenue by approximately \$6.9 million. The CPUC also authorized continuation of the water cost of capital adjustment mechanism, which provides for an adjustment in the return on equity if the cost of

long-term debt as defined by an index of utility debt rates varies from the most recent index by 100 basis points or more in 2019 and 2020.

On March 30, 2018, Cal Water submitted an advice letter that established the Cost of Capital Memorandum Account (CoC MA) to track the difference between current rates and rates based upon the new cost of capital adopted by the CPUC as if the new cost of capital had been in effect beginning January 1, 2018.

In May of 2018, Cal Water submitted an advice letter to adopt the new cost of capital and capital structure for 2018 in customer rates. The annual adopted gross revenue reduction associated with the May 2018 filing was \$6.9 million. The new rates became effective on July 1, 2018.

In 2018, Cal Water recorded a \$3.0 million regulatory liability due to the CoC MA. The regulatory liability was for the revenue reduction that Cal Water recorded for the first six months of 2018 during which the new cost of capital and capital structure were yet to be adopted in customer rates. In April of 2019, Cal Water submitted an advice letter to refund the full balance of the cost of capital memorandum account of \$3.0 million. The new rates became effective April 15, 2019.

2018 Tax Accounting Memorandum Account (TAMA)

On December 22, 2017, the CPUC sent a letter to All Class A and B Water and Sewer Utilities on the subject of “Changes in Federal Tax Rates for 2018.” The CPUC required Cal Water to establish a memo account to track the impact of the TCJA on Cal Water. The TAMA will track the revenue requirement impact of the TCJA not otherwise reflected in rates from January 1, 2018 until current rates are modified to reflect all impacts of the TCJA. The Hawaii Water, Washington Water, and New Mexico Water Commissions have similar requirements to track the impact of the changes to the federal tax law. In 2018, the Company recorded a \$5.4 million regulatory liability due to the changes required by the TCJA. The regulatory liability was for the revenue reduction that the Company recorded for the first six months of 2018 during which the new federal corporate income tax rate was yet to be adopted in customer rates.

In May of 2018, Cal Water submitted an advice letter to adopt the new federal corporate income tax rate in customer rates. The annual adopted gross revenue reduction associated with the May 2018 filing was \$11.1 million. The new rates became effective on July 1, 2018.

In April of 2019, Cal Water submitted an advice letter to refund \$5.0 million of the tax accounting memorandum account's balance associated with the decrease in the federal corporate income tax rate for Cal Water for the first six months of 2018. The new rates became effective April 15, 2019. The memorandum account remains open to allow the Commissions to review other changes to Cal Water's revenue requirements such as property taxes and excess deferred income taxes.

Escalation increase requests

As a part of the decision on the 2015 GRC, Cal Water was authorized to request annual escalation rate increases for 2019 for those districts that passed the earnings test. In November of 2018, Cal Water requested escalation rate increases in all of its regulated districts. The annual adopted gross revenue associated with the November 2018 filing was \$16.2 million. The new rates became effective on January 1, 2019.

WRAM and MCBA filings

In April of 2019, Cal Water submitted an advice letter to true up the revenue under-collections in the 2018 annual WRAMs/MCBAs of its regulated districts. A net under-collection of \$29.2 million is being recovered from customers in the form of 12, 18, and greater-than-18-month surcharges and 12 month surcredits. The new rates became effective April 15, 2019. These surcharges/surcredits are 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 November of 2018, Cal Water submitted advice letters to request offsets for increases in purchased water costs and pump taxes in five of its regulated districts totaling \$2.0 million. The new rates became effective on January 1, 2019.

In June and July of 2019, Cal Water submitted advice letters to request offsets for increases in purchased water costs and pump taxes in five of its regulated districts totaling \$3.9 million. The new rates became effective on July 15, 2019.

Rate base Offset filings

For construction projects that are authorized in GRCs as advice letter projects, companies are allowed to file rate base offsets to increase revenues after the plant is placed into service. In November of 2018, Cal Water submitted advice letters to recover \$0.2 million of annual revenue increase for rate base offsets in four of its regulated districts. The new rates became effective on April 15, 2019.

In August of 2019, Cal Water submitted an advice letter to recover \$0.4 million of annual revenue increase for the rate base offset in one of its regulated districts. The new rates are expected to become effective in the fourth quarter of 2019.

In October of 2019, Cal Water submitted an advice letter to recover \$0.3 million of annual revenue increase for the rate base offset in one of its regulated districts. The new rates are proposed to become effective on January 1, 2020.

California Drought Memorandum Account

In March of 2018, Cal Water submitted an advice letter to request recovery of 2016 and 2017 incremental drought expenses of \$3.3 million. On January 10, 2019, the Commission approved Cal Water's request for recovery of the \$3.3 million of incremental expenses; subsequently, Cal Water submitted an advice letter on January 15, 2019 to implement a surcharge to recover the incremental expenses from customers. The new rates became effective on April 15, 2019.

Travis Air Force Base

On September 29, 2016, Cal Water entered into a 50-year agreement with the U.S. Department of Defense to acquire the water distribution assets of and distribute water to most of Travis Air Force Base (TAFB) beginning in 2018. On May 31, 2017, Cal Water submitted an application to the CPUC seeking approval to distribute water service to most of the base and to establish rates for its service.

On December 13, 2018, the CPUC conditionally approved Cal Water's request to own and operate the TAFB water system as a regulated water utility district. Approval was conditioned upon modifying the contract between Cal Water and the Department of Defense to more clearly assert the CPUC's jurisdiction over a new Travis District. In January of 2019, Cal Water fulfilled the condition by submitting a contract amendment that was approved by the CPUC. The decision enables Cal Water to acquire the water distribution assets of TAFB from the U.S. Department of Defense and provide water utility service to the base for a term of 50 years. Subject to the terms of the contract with the Department of Defense and the CPUC decision, Cal Water began serving TAFB's more than 15,000 active and reserve personnel and civilians on July 1, 2019. The rates for TAFB are scheduled to be updated in January of 2020 with the CPUC's resolution of the 2018 GRC.

Public Safety Power Shut-off Memorandum Account (PSPS MA)

The recent wildfires in California have focused regulatory efforts to reduce the incidence and severity of these types of devastating events. The increased number of wildfire events are due to a number of factors such as extended drought, increased fuel for fires, and other extreme weather events. In addition, energized power lines can exacerbate wildfire conditions. These lines carry the potential to start or worsen an existing wildfire. Given this, the Commission has been examining issues related to wildfires and other emergencies in several proceedings. One of the proceedings, Rulemaking 18-12-005, is focused on proactively shutting off electric power in order to protect public safety through the Public Safety Power Shut-Off (PSPS) program, or de-energization. During a PSPS event, power will be cut off to electric lines that may fail in certain weather conditions in order to reduce the likelihood that electric utility infrastructure could cause or contribute to a wildfire.

The Commission's rulemaking is divided into two phases. In Phase 1, the Commission examined and adopted PSPS guidelines, focusing primarily on notification, communication and outreach. In Phase 2, the Commission will address issues that were outside of the scope of Phase 1 and will revisit some Phase 1 issues for further refinement. In Phase 2, which has been divided into two tracks, the Commission will take a more comprehensive look at de-energization practices, including mitigation, additional coordination across agencies, further refinements to findings in Phase 1, re-energization practices, and other matters. The first track will cover issues that may need to be addressed to inform PSPS events as soon as possible. The second track will cover issues that require an in depth analysis.

Electric utilities are expected to declare PSPS events during periods of high fire danger and where there is specific risk of electrical facilities causing a fire. As a public safety partner, Cal Water will receive priority notification of such events. According to communications with Cal Water's main electric providers, Southern California Edison and Pacific Gas and Electric, PSPS events may last up to 5 days which could significantly impact facilities within Cal Water's water systems. Additionally, power loss events can occur in major earthquakes, non-electric utility caused wildfires, tsunamis, or other natural and man-made disasters. Cal Water must be ready and equipped to maintain water service to the extent possible during these events. In response, Cal Water has performed a draft risk assessment which outlines recommended

improvements necessary to prepare its water systems for power loss events. The PSPS program will require either an increase in backup power generation or the development of an alternate means of providing reliable supply within Cal Water's water distribution systems. Depending upon the course of action, this can increase the need for generator fuel commensurate with the expected duration of power shutoffs. In most cases, Cal Water may need to lease generators for the most critical facilities to be prepared for the 2019 wildfire season, in anticipation of installing more permanent facilities in the long term. There will also be a necessary increase in generator and electrical equipment maintenance activities to improve reliability of the auxiliary power sources for a power loss event. To this end, Cal Water respectfully requested a memorandum account from the CPUC to track costs related to this effort. The memorandum account is pending approval by the CPUC. The PSPS MA will track the incremental costs associated with the preparation and installation of facilities to address public safety needs in the event of power losses. For the three and nine months ended September 30, 2019, the PSPS MA incremental costs were \$0.5 million.

2019 Regulatory Activity—Other States

2019 Kona (Hawaii Water) GRC Filing

In February of 2019, Hawaii Water filed a GRC application requesting an additional \$0.6 million in annual revenues for its Kona Water and Wastewater systems with the Hawaii Public Utilities Commission. The GRC seeks recovery of capital investments in the Kona water and wastewater systems as well as increases in operational expenses since the previous rate case. If approved, the Company anticipates rates would become effective the first quarter of 2020.

2017 Waikoloa (Hawaii Water) GRC Filings

In December of 2017, Hawaii Water filed GRC applications requesting an additional \$3.8 million in annual revenues for its Waikoloa Village and Resort Systems with the Hawaii Public Utilities Commission. The GRCs seek recovery of capital investments in the Waikoloa Village and Waikoloa Resort Systems as well as increases in operating expenses since the previous rate case. On January 1, 2019, the HPUC authorized Waikoloa Village rate increases of \$0.8 million for 2019 and \$0.1 million for 2020. On January 7, 2019, the HPUC authorized Waikoloa Resort rate increases of \$0.8 million for 2019, \$0.8 million for 2020, and \$0.1 million for 2021.

Kalaeloa Water Company (Hawaii Water)

In March 2019, Hawaii Water and Hunt Kalaeloa Water LLC entered into a Membership Interest Purchase Agreement to acquire water and wastewater assets. The Kalaeloa service area is located on the Island of Oahu on the former Barbers Point Naval Air Station. On July 3, 2019, the parties submitted a change of control application to the Hawaii Public Utilities Commission requesting approval for the purchase. If approved, Hawaii Water would be authorized to provide water and wastewater service in the Kalaeloa service area.

LIQUIDITY

Cash flow from Operations

Cash flow from operations for the first nine months of 2019 was \$128.3 million compared to \$119.5 million for the same period in 2018. 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 2019, we made contributions of \$12.5 million to our employee pension plan compared to contributions of \$42.3 million during the first nine months of 2018. During the first nine months of 2019, we made contributions of \$5.6 million to the other postretirement benefit plans compared to contributions of \$8.0 million during the first nine months of 2018. The total 2019 estimated cash contribution to the pension plans is \$18.8 million and to the other postretirement benefit plans is \$7.9 million.

The water business is seasonal. Billed revenue is lower in the cool, wet winter months when less water is used compared to the warm, dry summer months when water use is highest. This seasonality results in the possible need for short-term borrowings under the bank lines of credit in the event cash is not available to cover operating and utility plant costs during the winter period. The increase in cash flows during the summer allows short-term borrowings to be paid down. Customer water usage can be lower than normal in drought years and when more than normal precipitation falls in our service areas or temperatures are lower than normal, especially in the summer months.

Investing Activities

During the first nine months of 2019 and 2018, we used \$194.9 million and \$212.9 million, respectively, of cash for Company-funded and developer-funded utility plant expenditures. Annual expenditures fluctuate each year due to the availability of construction resources and our ability to obtain construction permits in a timely manner. For 2019, we estimate utility plant expenditures to be between \$250.0 million and \$260.0 million with higher capital spending anticipated after approval of the 2018 GRC settlement (see note 14).

Financing Activities

Net cash provided by financing activities was \$72.9 million during the first nine months of 2019 compared to \$66.5 million of net cash provided by financing activities for the same period in 2018.

On October 31, 2019, the Company entered into an equity distribution agreement with Morgan Stanley & Co., LLC, Robert W. Baird & Co. Incorporated, Blaylock Van, LLC and Wells Fargo Securities, LLC to sell shares of its common stock having an aggregate gross sales price of up to \$300.0 million from time to time depending on market conditions through an at-the-market equity program over the next three years. The Company intends to use the net proceeds from these sales, after deducting commissions on such sales and offering expenses, for general corporate purposes, which may include working capital, construction and acquisition expenditures, investments and repurchases, and redemptions of securities.

During the first nine months of 2019 and 2018, Cal Water issued \$400.0 million of First Mortgage Bonds on June 11, 2019 in a private placement. Cal Water used the net proceeds from the sale of the bonds to pay down outstanding short-term borrowings and to redeem \$300.0 million of First Mortgage Bond series UUU. Additionally, we borrowed \$210.0 million and \$141.0 million, respectively, on our unsecured revolving credit facilities during the first nine months of 2019 and 2018. Cal Water repaid \$100.0 million of First Mortgage Bonds that matured during the first nine months of 2019. Also, we made a repayment on our unsecured revolving credit facilities borrowings of \$120.0 million during the first nine months of 2019 compared to a repayment of \$341.0 million for the same period in 2018.

On March 29, 2019, the Company and Cal Water entered into certain syndicated credit agreements, which provide for unsecured revolving credit facilities of up to an initial aggregate amount of \$550.0 million for a term of five years. The revolving credit facilities amend, expand, and replace the Company's and its subsidiaries' prior credit facilities originally entered into on May 10, 2015. The new credit facilities extended the terms until March 29, 2024, and increased Cal Water's unsecured revolving line of credit. 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 \$400.0 million under its revolving credit facility. All borrowings must be repaid within 24 months unless a different period is required or authorized by the CPUC. Additionally, the credit facilities may be increased by up to an incremental \$150.0 million under the Cal Water facility and \$50.0 million under the Company facility, subject in each case to certain conditions. The proceeds from the revolving credit facilities may be used for working capital purposes, including the short-term financing of capital projects. Borrowings under the credit facilities typically have maturities varying between one and nine months and will bear interest annually at a rate equal to (i) the base rate or (ii) the Eurodollar rate, plus an applicable margin of 0.650% to 0.875%, depending on the Company and its subsidiaries' consolidated total capitalization ratio.

The undercollected net WRAM and MCBA receivable balances were \$62.6 million and \$60.0 million as of September 30, 2019 and 2018, 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 customers, 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 2019, we utilized cash generated from operations, issuance of First Mortgage Bonds, 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 2019 and 2018. We issued \$1.3 million of Company common stock for the Company's employee stock purchase plan that went into effect on January 1, 2019.

On June 11, 2019, Cal Water issued \$400.0 million of First Mortgage Bonds (see Note 7) in a private placement. Cal Water used the net proceeds from the sale of the bonds to pay down outstanding short-term borrowings and to redeem \$300.0 million of First Mortgage Bond series UUU. Bond principal and other long-term debt payments were \$401.6 million during the first nine months of 2019 and \$12.5 million during the first nine months of 2018.

In future periods, management anticipates funding our utility plant needs through a relatively balanced approach between 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. 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 \$400.0 million under its revolving credit facility; however, all borrowings must be repaid within 24 months unless a different period is required or 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.

As of September 30, 2019 and December 31, 2018, there were short-term borrowings of \$155.1 million and \$65.1 million, respectively, outstanding on the unsecured revolving credit facilities.

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, 2019, we are in compliance with all of the covenant requirements and are eligible to use the full amount of our credit facilities.

Long-term financing, which includes First Mortgage Bonds, 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 generally refundable over 40 years. Management believes long-term financing is available to meet our cash flow needs through issuances in both debt and equity instruments.

On October 31, 2019, the Company entered into an equity distribution agreement with Morgan Stanley & Co., LLC, Robert W. Baird & Co. Incorporated, Blaylock Van, LLC and Wells Fargo Securities, LLC to sell shares of its common stock having an aggregate gross sales price of up to \$300.0 million from time to time depending on market conditions through an at-the-market equity program over the next three years. The Company intends to use the net proceeds from these sales, after deducting commissions on such sales and offering expenses, for general corporate purposes, which may include working capital, construction and acquisition expenditures, investments and repurchases, and redemptions of securities.

Dividends

During the first nine months of 2019, our quarterly common stock dividend payments were \$0.5925 per share compared to \$0.5625 per share during the first nine months of 2018. For the full year 2018, the payout ratio was 55.2% 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 30, 2019 meeting, the Company's Board of Directors declared the fourth quarter dividend of \$0.1975 per share payable on November 22, 2019, to stockholders of record on November 11, 2019. This was our 299th consecutive quarterly dividend.

2019 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 \$400.0 million, respectively, for short-term borrowings. As of September 30, 2019, the Company's and Cal Water's availability on these unsecured revolving lines of credit was \$94.9 million and \$300.0 million, respectively.

Book Value and Stockholders of Record

Book value per common share was \$15.74 at September 30, 2019 compared to \$15.19 at December 31, 2018. There were approximately 1,925 stockholders of record for our common stock as of August 12, 2019.

Utility Plant Expenditures

During the first nine months of 2019, utility plant expenditures totaled \$194.9 million for Company-funded and developer-funded projects. For 2019, we estimate utility plant expenditures to be between \$250.0 million and \$260.0 million with higher capital spending anticipated after approval of the 2018 GRC settlement (see note 14). We do not control third-party-funded utility plant expenditures and therefore are unable to estimate the amount of such projects for 2019.

As of September 30, 2019, construction work in progress was \$266.0 million. Construction 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 half 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 14.0% 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. Our annual groundwater extraction from managed groundwater basins approximates 29.1 billion gallons or 59.4% of our total annual water supply pumped from wells. Our annual groundwater extraction from unmanaged groundwater basins approximates 13.1 billion gallons or 26.6% of our total annual water supply pumped from wells. Most of the managed groundwater basins we extract water from have groundwater recharge facilities. We are required to pay well pump taxes to financially support these groundwater recharge facilities. Well pump taxes were \$3.5 million and \$3.8 million for the three months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, well pump taxes were \$8.7 million and \$10.9 million, respectively. In 2014, the State of California enacted the Sustainable Groundwater Management Act of 2014. The law and its implementing regulations 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 in California replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. As of June 27, 2019, the State of California snowpack water content during the 2019-2020 water year is 80% of long-term averages (per the California Department of Water Resources, Daily Drought Information Summary). The northern Sierra region is the most important for the state's urban water supplies. The central and southern portions of the Sierras also have recorded 91% and 59%, respectively, of long-term averages. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2019 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.

On May 31, 2018, California's Governor Brown signed two bills (Assembly Bill 1668 and Senate Bill 606) into law that will establish long-term standards for water use efficiency. The bills revise and expand the existing urban water management plan requirements to include five year drought risk assessments, water shortage contingency plans, and annual water supply/demand assessments. By June 30, 2022, the California State Water Resources Control Board, in conjunction with the California Department of Water Resources, will establish long-term water use standards for indoor residential use, outdoor residential use, water losses and other uses. Cal Water will also be required to calculate and report

on urban water use target by November 1, 2023 and each November 1 thereafter that compares actual urban water use to the target. Management believes that Cal Water is well-positioned to comply with all regulations required of utilities.

CONTRACTUAL OBLIGATIONS

During the nine months ended September 30, 2019, 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 offsettable expense procedures allowed for increases in purchased water, pump tax, and purchased power costs to be flowed through to consumers. Traditionally, a significant percentage of our net income and cash flows come 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(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, 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 Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management, including the Chief Executive Officer and Chief Financial Officer, 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 Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2019. Based on that evaluation and the changes made to our internal control over financial reporting in the first nine months of 2019 noted below, we concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes to Internal Control over Financial Reporting

To remediate the material weakness in internal control over financial reporting as of December 31, 2018 disclosed in Part I, Item 9A of our Annual Report on Form 10-K for the year-ended December 31, 2018, management made the following changes during the first nine months of 2019:

- Management revised the design of the monthly regulatory balancing account control for the health cost balancing account (HCBA) and pension cost balancing account (PCBA). Monthly detailed calculations are prepared for these balancing accounts, which are reviewed by accounting and rates management who approve the calculations. The monthly review and approval process validates all assumptions and inputs used to determine the monthly balancing account revenue and related balance sheet account adjustments for HCBA and PCBA. This control was implemented

in the first quarter of 2019 and internal audit tested the design and operating effectiveness of the resulting control and concluded that it is operating effectively as of September 30, 2019.

- Management designed a new control over regulatory orders, GRC settlements or other decisions made by the Commissions impacting the Company. As required by the control, accounting and rates management review and document the financial impacts of the provisions, events, and requirements of any such regulatory orders, GRC settlements, or decisions made by the Commissions. This control was implemented in the third quarter of 2019 and internal audit tested the design and operating effectiveness of the resulting control and concluded that it is operating effectively as of September 30, 2019.

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 customers or other third parties. For more information refer to note 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, 2018 filed with the SEC on February 28, 2019.

Item 5.

OTHER INFORMATION

On October 31, 2019, we entered into an equity distribution agreement (the Equity Distribution Agreement) with Morgan Stanley & Co. LLC, Robert W. Baird & Co. Incorporated, Blaylock Van, LLC, and Wells Fargo Securities, LLC (the Managers). Pursuant to the terms of the Equity Distribution Agreement, we may, from time to time through an at-the-market equity program, sell shares of our common stock, par value \$0.01 per share, having an aggregate gross sales price of up to \$300.0 million (the Shares) through the Managers, acting as our agents (the ATM Offering). We will pay the Managers a commission equal to 1.0% of the gross offering proceeds from the sale of Shares pursuant to the ATM Offering. In the Equity Distribution Agreement, the Company agrees to indemnify the Managers against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the Securities Act) or to contribute payments that the Managers may be required to make because of such liabilities. We or the Managers may suspend the offering of Shares at any time and from time to time by notifying the other party.

We intend to use the net proceeds from these sales, after deducting commissions on such sales and offering expenses, for general corporate purposes, which may include working capital, construction and acquisition expenditures, investments and repurchases, and redemptions of securities.

The Managers and their affiliates have, from time to time, provided, and may in the future provide, various investment banking, commercial banking and/or other financial services for us and our affiliates in the ordinary course of business, for which services they have and may in the future receive customary fees. Affiliates of certain of the Managers are lenders under certain of our and our affiliates' credit facilities.

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The Shares will be issued pursuant to our automatically effective shelf registration statement on Form S-3 that is currently on file (Registration No. 333-234389), the base prospectus contained therein, and a prospectus supplement that was filed with the Securities and Exchange Commission on October 31, 2019.

A copy of the Equity Distribution Agreement is attached as Exhibit 1.1 to this quarterly report. The foregoing description of the Equity Distribution Agreement does not purport to be complete and is qualified in its entirety by reference to Exhibit 1.1.

A copy of the opinion of Gibson, Dunn & Crutcher LLP relating to the validity of the securities issued in the ATM Offering is filed as Exhibit 5.1 to this quarterly report.

Item 6.

EXHIBITS

<u>Exhibit</u>	<u>Description</u>
1.1	Equity Distribution Agreement, dated as of October 31, 2019, between California Water Service Group and Morgan Stanley & Co. LLC, Robert W. Baird & Co. Incorporated, Blaylock Van, LLC, and Wells Fargo Securities, LLC
4.0	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
4.1	Sixty-Second Supplemental Indenture dated as of June 11, 2019, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 3.40% First Mortgage Bonds due 2029, Series VVV, 4.07% First Mortgage Bonds due 2049, Series WWW, and 4.17% First Mortgage Bonds due 2059, Series YYY (Exhibit 10.1 to the Current Report on Form 8-K filed June 18, 2019)
5.1	Opinion of Gibson, Dunn & Crutcher LLP
10.1	Credit Agreement dated as of March 29, 2019 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, Bank of China, Los Angeles Branch and Wells Fargo Bank, National Association as co-documentation agents, and the other lender parties thereto (Exhibit 10.1 to the Current Report on Form 8-K filed March 29, 2019).
10.2	Credit Agreement dated as of March 29, 2019 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, Bank of China, Los Angeles Branch and Wells Fargo Bank, National Association as co-documentation agents, and the other lender parties thereto (Exhibit 10.2 to the Current Report on Form 8-K filed March 29, 2019).
23.1	Consent of Gibson, Dunn & Crutcher LLP (contained in Exhibit 5.1)
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	The following materials from California Water Service Group's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of (Loss) Income, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to the Condensed Consolidated Financial Statements.
104	The cover page from California Water Service Group's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in iXBRL (included as exhibit 101)

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 31, 2019

By: /s/ Thomas F. Smegal III
Thomas F. Smegal III
Vice President,
Chief Financial Officer and Treasurer

CALIFORNIA WATER SERVICE GROUP

COMMON STOCK, PAR VALUE \$0.01 PER SHARE

EQUITY DISTRIBUTION AGREEMENT

October 31, 2019

October 31, 2019

To: Morgan Stanley & Co. LLC
1585 Broadway
New York, NY 10036

Robert W. Baird & Co. Incorporated
777 E. Wisconsin Avenue
Milwaukee, WI 53202

Blaylock Van, LLC
600 Lexington Avenue, Floor 3
New York, NY 10022

Wells Fargo Securities, LLC
375 Park Avenue
New York, New York 10152

Ladies and Gentlemen:

California Water Service Group, a Delaware corporation (the “**Company**”), proposes to issue and sell through Morgan Stanley & Co. LLC, Robert W. Baird & Co. Incorporated, Blaylock Van, LLC, and Wells Fargo Securities, LLC, each as sales agent (each a “**Manager**” and together, the “**Managers**”), on the terms set forth in this equity distribution agreement (this “**Agreement**”), shares of its common stock, par value \$0.01 per share, having an aggregate gross sales price of up to \$300,000,000 (the “**Shares**”). The shares of common stock, par value \$0.01 per share, of the Company to be outstanding after giving effect to the sales contemplated hereby are hereinafter referred to as the “**Common Stock**”.

The Company has filed with the Securities and Exchange Commission (the “**Commission**”) a registration statement on Form S-3 (File No. 333-234389), including a prospectus, relating to the securities (the “**Shelf Securities**”), including the Shares, to be issued from time to time by the Company. The registration statement as of its most recent effective date, including the information (if any) deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 430A or Rule 430B under the Securities Act of 1933, as amended (the “**Securities Act**”), is hereinafter referred to as the “**Registration Statement**”, and the related prospectus covering the Shelf Securities and filed as part of the Registration Statement, together with any amendments or supplements thereto as of the most recent effective date of the Registration Statement, is hereinafter referred to as the “**Basic Prospectus**”. “**Prospectus Supplement**” means the final prospectus supplement, relating to the Shares, filed by the Company with the

Commission pursuant to Rule 424(b) under the Securities Act on or before the second business day after the date hereof, in the form furnished by the Company to the Managers in connection with the offering of the Shares. Except where the context otherwise requires, “**Prospectus**” means the Basic Prospectus, as supplemented by the Prospectus Supplement and the most recent Interim Prospectus Supplement (as defined in Section 6(c) below), if any. For purposes of this Agreement, “**free writing prospectus**” has the meaning set forth in Rule 405 under the Securities Act. “**Permitted Free Writing Prospectuses**” means the documents listed on Schedule I hereto or otherwise approved in writing by the Managers in accordance with Section 6(b). As used herein, the terms “Registration Statement”, “Basic Prospectus”, “Prospectus Supplement”, “Interim Prospectus Supplement” and “Prospectus” shall include the documents, if any, incorporated by reference therein. The terms “**supplement**”, “**amendment**” and “**amend**” as used herein with respect to the Registration Statement, the Basic Prospectus, the Prospectus Supplement, any Interim Prospectus Supplement or the Prospectus shall include all documents subsequently filed by the Company with the Commission pursuant to the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), that are deemed to be incorporated by reference therein (each document incorporated or deemed to be incorporated by reference into any Registration Statement, Basic Prospectus, Prospectus Supplement, Interim Prospectus Supplement or Prospectus, whether filed prior to, on or after the date hereof, an “**Incorporated Document**” and collectively, the “**Incorporated Documents**”).

1. *Representations and Warranties.* The Company represents and warrants to and agrees with each Manager that:

(a) The Registration Statement has become effective under the Securities Act; no stop order suspending the effectiveness of the Registration Statement or preventing or suspending the use of any Prospectus is in effect; and no proceedings for such purpose or pursuant to Section 8A under the Securities Act are pending before or threatened by the Commission. If the Registration Statement is an automatic shelf registration statement as defined in Rule 405 under the Securities Act, the Company is a well-known seasoned issuer (as defined in Rule 405 under the Securities Act) eligible to use the Registration Statement as an automatic shelf registration statement, and the Company has not received notice that the Commission objects to the use of the Registration Statement as an automatic shelf registration statement.

(b) (i) (A) At the respective times the Registration Statement and each amendment thereto became effective, (A) at each deemed effective date with respect to the Managers pursuant to Rule 430B(f)(2) under the Securities Act (each, a “**Deemed Effective Time**”), (A) as of each time Shares are sold pursuant to this Agreement (each, a “**Time of Sale**”), at each Settlement Date (as defined below) and (A) at all times during which a prospectus is required by the Securities Act to be delivered (whether physically or through compliance with Rule 172 under the Securities Act or any similar rule) in

connection with any sale of Shares (the “**Delivery Period**”), the Registration Statement complied and will comply in all material respects with the requirements of the Securities Act and the rules and regulations under the Securities Act; (i) the Basic Prospectus complied, or will comply, at the time it was, or will be filed, with the Commission, complies as of the date hereof (if filed with the Commission on or prior to the date hereof) and, as of each Time of Sale and at all times during the Delivery Period, will comply in all material respects with the requirements of the Securities Act and the rules and regulations under the Securities Act; (i) each of the Prospectus Supplement, any Interim Prospectus Supplement and the Prospectus will comply, as of the date that such document is filed with the Commission, as of each Time of Sale, as of each Settlement Date and at all times during the Delivery Period, in all material respects with the requirements of the Securities Act and the rules and regulations under the Securities Act; and (i) the Incorporated Documents, when they were filed with the Commission, conformed in all material respects to the requirements of the Exchange Act and the rules and regulations of the Commission thereunder, and any further Incorporated Documents so filed and incorporated by reference, when they are filed with the Commission, will conform in all material respects to the requirements of the Exchange Act and the rules and regulations of the Commission thereunder.

(c) (i) As of the date hereof, at the respective times the Registration Statement and each amendment thereto became effective and at each Deemed Effective Time, the Registration Statement did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; (i) as of each Time of Sale, the Prospectus (as amended and supplemented at such Time of Sale) and any Permitted Free Writing Prospectus then in use, considered together (collectively, the “**General Disclosure Package**”), did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; (i) as of its date, the Prospectus did not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (i) at any Settlement Date, the Prospectus (as amended and supplemented at such Settlement Date) did not and will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however*, that this representation and warranty shall not apply to any statement or omission made in reliance upon and in conformity with information furnished in writing to the Company by the Managers expressly for use in the Prospectus or in the General Disclosure Package (it being understood and agreed that such information consists solely of the information specified in Section 8(b)).

(d) Any free writing prospectus that the Company is required to file pursuant to Rule 433(d) under the Securities Act relating to the offer and sale of the Shares has been, or will be, filed with the Commission in accordance with the requirements of the Securities Act and the applicable rules and regulations of the Commission thereunder. Each free writing prospectus relating to the offer and sale of the Shares that the Company has filed, or is required to file, pursuant to Rule 433(d) under the Securities Act or that was prepared by or on behalf of or used or referred to by the Company complies or will comply in all material respects with the requirements of the Securities Act and the applicable rules and regulations of the Commission thereunder. Each free writing prospectus relating to the offer and sale of the Shares, as of its issue date and at all subsequent times through the completion of the public offer and sale of the Shares or until any earlier date that the Company notified or notifies the Managers, did not, does not and will not include any material information that conflicted, conflicts or will conflict with the information contained in the Registration Statement or the Prospectus. Except for the Permitted Free Writing Prospectuses, if any, furnished to and approved by the Managers in accordance with Section 6(b), the Company has not prepared, used or referred to, and will not, prepare, use or refer to, any free writing prospectus relating to the offer and sale of the Shares.

(e) (i)(A) At the time of filing the Registration Statement, (A) at the time of the most recent amendment thereto for the purposes of complying with Section 10(a)(3) of the Securities Act (whether such amendment was by post-effective amendment, incorporated report filed pursuant to Section 13 or 15(d) of the Exchange Act or form of prospectus) and (A) at the time the Company or any person acting on its behalf (within the meaning, for this clause only, of Rule 163(c)) made any offer relating to the Shelf Securities in reliance on the exemption of Rule 163 under the Securities Act, the Company was not an “ineligible issuer” as defined in Rule 405 of the Securities Act; and (i)(A) at the time of filing of the Registration Statement, (A) at the earliest time thereafter that the Company or another offering participant made a bona fide offer (within the meaning of Rule 164(h)(2) under the Securities Act) of the Shares and (A) at the date hereof, the Company was not and is not an “ineligible issuer” as defined in Rule 405 under the Securities Act.

(f) Shares of Common Stock are listed on the New York Stock Exchange (“NYSE”), and the Company has not received any notice from the NYSE regarding the delisting of such shares from the NYSE. The Shares are duly listed and admitted and authorized for trading, subject to official notice of issuance, on the NYSE. To the Company’s knowledge, there are no affiliations or associations between (i) any member of Financial Industry Regulatory Authority (“FINRA”) and (ii) the Company or any of the Company’s officers, directors or 5% or greater security holders or any beneficial owner of the Company’s unregistered equity securities that were

acquired at any time on or after the 180th day immediately preceding the date the Registration Statement was initially filed with the Commission, except as disclosed in the Registration Statement, the Prospectus and the General Disclosure Package.

(g) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own or lease its property and to conduct its business as described in each of the Registration Statement, the Prospectus and the General Disclosure Package and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(h) Each “significant subsidiary” (as such term is defined in Rule 405 of the Securities Act) of the Company (each a “**Subsidiary**” and, collectively, the “**Subsidiaries**”) has been duly incorporated, organized or formed, is validly existing as a corporation or other business entity in good standing under the laws of the jurisdiction of its incorporation, organization or formation, has the corporate or other business entity power and authority to own or lease its property and to conduct its business as described in each of the Registration Statement, the Prospectus and the General Disclosure Package and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not, singly or in the aggregate, have a material adverse effect on the Company and its Subsidiaries, taken as a whole; all of the issued shares of capital stock or other equity interests of each Subsidiary of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and are owned directly by the Company, free and clear of all liens, encumbrances, equities or claims.

(i) This Agreement has been duly authorized, executed and delivered by the Company.

(j) The authorized and outstanding capitalization of the Company is as set forth in the General Disclosure Package, subject, in each case, to the issuance of shares of Common Stock upon exercise of stock options and warrants disclosed as outstanding in the General Disclosure Package, and the grant of options under existing stock option plans described in the General Disclosure Package. The authorized capital stock of the Company conforms as to legal matters to the description thereof contained in, or incorporated by

reference into, each of the Registration Statement, the Prospectus and the General Disclosure Package.

(k) The shares of Common Stock outstanding prior to the issuance of the Shares have been duly authorized and are validly issued, fully paid and non-assessable.

(l) The Shares have been duly authorized and, when issued, delivered and paid for in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of the Shares will not be subject to any preemptive or similar rights.

(m) The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not contravene any provision of (i) any statute, law, rule, regulation, judgment, order or decree of any governmental body, regulatory or administrative agency or court having jurisdiction over the Company or any of its subsidiaries, (ii) the certificate of incorporation or by-laws of the Company, or (iii) any contract, agreement, obligation, covenant or instrument to which the Company or any of its subsidiaries (or any of their respective assets) is subject or bound that is material to the Company and its subsidiaries, taken as a whole, except that in the case of clauses (i) and (iii) as would not, individually or in the aggregate, have a material adverse effect on the Company or on the power and ability of the Company to perform its obligations under this Agreement. No approval, authorization, consent, or order of, or filing or qualification with, any federal, state, local or foreign governmental or regulatory commission, board, body, authority, agency or court, is required in connection with the performance by the Company of its obligations under this Agreement, except (1) such as has previously been obtained, (2) such as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Shares or (3) the filing of a supplemental listing application and related materials with the NYSE.

(n) There has not occurred any material adverse change, or any development involving a prospective material adverse change, in the assets, business, condition (financial or otherwise), operations or earnings of the Company and its subsidiaries, taken as a whole, from that set forth in the Registration Statement, the Prospectus and the General Disclosure Package.

(o) There are no actions, suits, claims, or proceedings pending or, to the knowledge of the Company, threatened to which the Company or any of its subsidiaries or any of their respective directors or officers is or would be (in their capacity as a director or officer of the Company or a subsidiary) a party or of which any of their respective properties is subject (i) other than any such action, suit, claim, or proceeding accurately described in all material respects in the Registration Statement, the Prospectus and the General

Disclosure Package and that would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole, or on the power or ability of the Company to perform its obligations under this Agreement or to consummate the transactions contemplated by this Agreement and the General Disclosure Package or (i) that are required to be described in the Registration Statement or the Prospectus and are not so described in all material respects; and there are no statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described in all material respects or filed as required.

(p) The Company is not, and after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the General Disclosure Package will not be, required to register as an “investment company” as such term is defined in the Investment Company Act of 1940, as amended.

(q) Except as disclosed in the Registration Statement, the Prospectus and the General Disclosure Package, the Company and each of its subsidiaries (i) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, water quality, the environment or hazardous or toxic materials, substances or wastes, pollutants or contaminants, including petroleum and petroleum biproducts (“**Environmental Laws**”), (i) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and are in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(r) Except as disclosed in the Registration Statement, the Prospectus and the General Disclosure Package, there are no costs or liabilities associated with Environmental Laws (including, without limitation, any capital, operating or other expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties) which would, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(s) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the

Company to file a registration statement under the Securities Act with respect to any securities of the Company or to require the Company to include such securities with the Shares registered pursuant to the Registration Statement.

(t) (i) None of the Company or any of its subsidiaries, or any director or officer thereof, or, to the Company's knowledge, any controlled affiliate, employee, agent or representative of the Company or of any of its subsidiaries or controlled affiliates, has taken or will take any action in furtherance of an offer, payment, promise to pay, or authorization or approval of the payment, giving or receipt of money, property, gifts or anything else of value, directly or indirectly, to any government official (including any officer or employee of a government or government-owned or controlled entity or of a public international organization, or any person acting in an official capacity for or on behalf of any of the foregoing, or any political party or party official or candidate for political office) in order to influence official action, or to any person in violation of any applicable anti-corruption laws; (ii) the Company and each of its subsidiaries and controlled affiliates have conducted their businesses in compliance with applicable anti-corruption laws and have instituted and maintained and will continue to maintain policies and procedures reasonably designed to promote and achieve compliance with such laws and with the representations and warranties contained herein; and (iii) neither the Company nor any of its subsidiaries will use, directly or indirectly, the proceeds of the offering in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any person in violation of any applicable anti-corruption laws.

(u) The operations of the Company and each of its subsidiaries are and have been conducted at all times in material compliance with all applicable financial recordkeeping and reporting requirements, including those of the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), and the applicable anti-money laundering statutes of jurisdictions where the Company and each of its subsidiaries conduct business, the rules and regulations thereunder and any related or similar rules, regulations or guidelines issued, administered or enforced by any governmental agency (collectively, the "**Anti-Money Laundering Laws**"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Anti-Money Laundering Laws is pending or, to the knowledge of the Company, threatened.

(v) (i) None of the Company or any of its subsidiaries, or any director or officer thereof, or, to the Company's knowledge, any agent, controlled affiliate, employee, or representative of the Company or any of its

subsidiaries, is an individual or entity (“**Person**”) that is, or is owned or controlled by one or more Persons that are:

(A) the subject of any sanctions administered or enforced by the U.S. Department of the Treasury’s Office of Foreign Assets Control, the U.S. Department of State, the United Nations Security Council, the European Union, or Her Majesty’s Treasury (collectively, “**Sanctions**”), or

(B) located, organized or resident in a country or territory that is, or whose government is, the subject of Sanctions (which currently include, without limitation, Crimea, Cuba, Iran, North Korea, Syria, and Venezuela).

(ii) The Company will not, directly or indirectly, use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person:

(A) to fund or facilitate any activities or business of or with any Person or in any country or territory that, at the time of such funding or facilitation, is the subject of Sanctions; or

(B) in any other manner that will result in a violation of Sanctions by any Person (including any Person participating in the offering, whether as underwriter, advisor, investor or otherwise).

(iii) For the past 10 years, the Company and each of its subsidiaries have not knowingly engaged in, are not now knowingly engaged in, and will not engage in, any dealings or transactions with any Person, or in any country or territory, that at the time of the dealing or transaction is or was the subject of Sanctions.

(w) Subsequent to the respective dates as of which information is given in each of the Registration Statement, the Prospectus and the General Disclosure Package, (i) the Company and its subsidiaries, taken as a whole, have not incurred any material liability or obligation, direct or contingent, nor entered into any material transaction that is required to be disclosed in a Form 8-K; (i) the Company has not purchased any of its outstanding capital stock, other than from its employees or other service providers in connection with the termination of their service pursuant to equity compensation plans or agreements disclosed in the Registration Statement, the Prospectus and the General Disclosure Package or in connection with the exercise of the Company’s right of first refusal upon a proposed transfer, nor declared, paid or otherwise made any dividend or distribution of any kind on its capital stock other than ordinary and customary dividends; and (i) there has not been any material change in the capital stock (other than the exercise of equity awards or grants of equity awards or forfeiture of equity awards outstanding as of such respective dates as of which information is given in the Registration

Statement, the Prospectus and the General Disclosure Package, in each case granted pursuant to the equity compensation plans disclosed in the Registration Statement, the Prospectus and the General Disclosure Package), short-term debt or long-term debt of the Company and its subsidiaries, taken as a whole, except in each case as disclosed in the Registration Statement, the Prospectus and the General Disclosure Package. Except as otherwise would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, no subsidiary of the Company is subject to any material direct or indirect prohibition on paying any dividends to the Company, on making any other distribution on such subsidiary's capital stock, on repaying to the Company any loans or advances to such subsidiary from the Company or on transferring any of such subsidiary's property or assets to the Company or any other subsidiary of the Company.

(x) The Company and each of its subsidiaries (i) have either good title in the easement as listed on the applicable title insurance policy or good and marketable title in fee simple to all real property owned by them, and (ii) have good and marketable title to all personal property which is material to the business of the Company and its subsidiaries, in each case free and clear of all liens, encumbrances and defects except (1) such as are disclosed in the Registration Statement, the Prospectus and the General Disclosure Package, (2) such as are not material and do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries, taken as a whole, or (3) as would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole. Any real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and, to the Company's knowledge, enforceable leases except in each case (A) such as are disclosed in the Registration Statement, the Prospectus and the General Disclosure Package, (B) such as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries, or (C) as would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(y) (i) The Company and each of its subsidiaries own or have rights to or can acquire on commercially reasonable terms a valid license to all patents, patent applications, inventions, unregistered and registered copyrights, know how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), designs, unregistered and registered trademarks, service marks, logos and trade names and all goodwill associated therewith (collectively, "**Intellectual Property Rights**") described as being owned by the Company or such subsidiary in the General Disclosure Package or which are used in their businesses. Except as disclosed in the Registration Statement, the Prospectus and the General Disclosure Package, neither the Company nor any of its subsidiaries has

received any notice alleging any infringement, misappropriation or other violation of Intellectual Property Rights of a third party. To the Company's knowledge, neither the Company nor any of its subsidiaries infringes, misappropriates or otherwise violates, or has infringed, misappropriated or otherwise violated, any Intellectual Property Rights of a third party. The Company and its subsidiaries have taken reasonable steps in accordance with customary industry practice to maintain all information intended to be maintained as confidential or as a trade secret. To the Company's knowledge, no such information or trade secret has been disclosed by the Company or any of its subsidiaries to any person except pursuant to appropriate non-disclosure and/or license agreements.

(z) (i) The Company and its subsidiaries have used all software and other materials distributed under a "free," "open source," or similar licensing model (including but not limited to the MIT License, Apache License, GNU General Public License, GNU Lesser General Public License and GNU Affero General Public License) ("**Open Source Software**") in compliance in all material respects with all license terms applicable to such Open Source Software; and (ii) neither the Company nor any of its subsidiaries has used or distributed any Open Source Software in any manner that requires or has required (A) the Company or any of its subsidiaries to permit reverse engineering of any software code or other technology owned by the Company or any of its subsidiaries or (B) any software code or other technology owned by the Company or any of its subsidiaries to be (1) disclosed or distributed in source code form, (2) licensed for the purpose of making derivative works or (3) redistributed at no charge, except in the case of (A) and (B) above, as would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(aa) The Company and each of its subsidiaries have complied in all material respects and are presently in compliance in all material respects with the Company's privacy and security policies, and with all obligations, applicable laws, rules and regulations regarding the collection, use, processing, transfer, import, export, storage, protection, disposal and disclosure by the Company or any of its subsidiaries of personally identifiable information or any other information collected from or provided by third parties.

(bb) The Company and each of its subsidiaries have taken commercially reasonable steps to protect the information technology systems and data used in connection with the operation of the Company's or its subsidiaries' business against loss, unauthorized distribution, use, access, modification, or other misuse, and have implemented backup and disaster recovery technology consistent with industry standards and practices in all material respects. To the Company's knowledge, except as disclosed in the

Registration Statement, the Prospectus and the General Disclosure Package, there has been no material security breach or attack or other material misuse or compromise of or relating to any such information technology system or data, and there is no action, suit or proceeding or claim against the Company or any of its subsidiaries arising out of alleging any of the foregoing.

(cc) The financial statements included or incorporated by reference in each of the Registration Statement, the Prospectus and the General Disclosure Package, together with the related notes and schedules thereto, present fairly in all material respects the consolidated financial position of the Company and its subsidiaries as of the dates indicated and the consolidated results of operations, cash flows and changes in stockholders' equity for the periods specified and have been prepared in compliance in all material respects with the requirements of the Securities Act and the Exchange Act and in conformity with generally accepted accounting principles in the United States ("U.S. GAAP") applied on a consistent basis throughout the periods covered thereby. The other financial information included or incorporated by reference in each of the Registration Statement, the Prospectus and the General Disclosure Package has been derived from the accounting records of the Company and its consolidated subsidiaries and are fairly presented in all material respects and prepared on a basis consistent with the financial statements and books and records of the Company. The statistical, industry-related and market-related data included in each of the Registration Statement, the Prospectus and the General Disclosure Package are based on or derived from sources which the Company reasonably and in good faith believes are reliable and accurate and such data is consistent with the sources from which they are derived, in each case in all material respects.

(dd) Deloitte & Touche LLP, who have expressed its opinion with respect to the financial statements of the Company and its subsidiaries filed with the Commission as part of the Registration Statement and included in each of the Registration Statement, the Prospectus and the General Disclosure Package, is an independent registered public accounting firm with respect to the Company within the meaning of the Securities Act and the applicable rules and regulations thereunder adopted by the Commission and the Public Company Accounting Oversight Board (United States).

(ee) No material labor dispute with the employees of the Company or any of its subsidiaries exists, except as disclosed in the Registration Statement, the Prospectus and the General Disclosure Package, or, to the knowledge of the Company, is threatened; and the Company has no knowledge of any existing, threatened or imminent labor disturbance by the employees of any of its principal suppliers, manufacturers, contractors or vendors that could, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(ff) (i) Each “employee benefit plan” (within the meaning of Section 3(3) of the Employee Retirement Security Act of 1974, as amended (“ERISA”)) for which the Company, any of its subsidiaries or any of their “ERISA Affiliates” (defined as any person that for purposes of Title I or Title IV of ERISA or Section 412 of the Internal Revenue Code of 1986, as amended (the “Code”) would be deemed at any relevant time to be a “single employer” or otherwise aggregated with the Company or any of its subsidiaries under Sections 414(b), 414(c), 414(m) or 414(o) of the Code) would have any liability (each a “**Plan**”) has been maintained in compliance in all respects with its terms and with the requirements of all applicable statutes, rules and regulations including ERISA and the Code except where failure to do so would not have a material adverse effect; (ii) with respect to each Plan subject to Title IV of ERISA (a) no “reportable event” (within the meaning of Section 4043(c) of ERISA) has occurred or is reasonably expected to occur that would result in a material adverse effect, (b) no “accumulated funding deficiency” (within the meaning of Section 302 of ERISA or Section 412 of the Code), whether or not waived, has occurred or is reasonably expected to occur that would result in a material adverse effect and (c) neither the Company, nor any of its subsidiaries nor any of their ERISA Affiliates has incurred, or reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the Pension Benefit Guaranty Corporation in the ordinary course and without default) in respect of a Plan (including a “multiemployer plan” within the meaning of Section 4001(c)(3) of ERISA) that would result in a material adverse effect; and (iii) each Plan that is intended to be qualified under Section 401(a) of the Code is so qualified and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification that would result in a material adverse effect.

(gg) The Company and each of its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are, in the reasonable judgment of the Company, prudent and customary in the businesses in which they are engaged; neither the Company nor any of its subsidiaries has been refused any insurance coverage sought or applied for; and neither the Company nor any of its subsidiaries has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole, except as disclosed in the Registration Statement, the Prospectus and the General Disclosure Package.

(hh) The Company and each of its subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state

or foreign regulatory authorities necessary to conduct their respective businesses, except where the failure to obtain such certificates, authorizations and permits would not, individually or the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole, and neither the Company nor any of its subsidiaries has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the Company and its subsidiaries, taken as a whole, except as disclosed in the Registration Statement, the Prospectus and the General Disclosure Package.

(ii) The Company maintains “internal control over financial reporting” (as defined in Rules 13a-15 and 15d-15 under the Exchange Act) in compliance with the requirements of the Exchange Act. The Company and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management’s general or specific authorizations; (i) transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. GAAP and to maintain accountability for assets; (i) access to assets is permitted only in accordance with management’s general or specific authorization; (i) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (i) the interactive data in eXtensible Business Reporting Language included or incorporated by reference in the Registration Statement is accurate. Except as described in the Registration Statement, the Prospectus and the General Disclosure Package, since the end of the Company’s most recent audited fiscal year, there has been (i) no significant deficiency or material weakness in the Company’s internal control over financial reporting (whether or not remediated) and (ii) no change in the Company’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

(jj) The Company maintains a system of “disclosure controls and procedures” (as defined in Rules 13a-15 and 15d-15 of the Exchange Act) that complies with the requirements of the Exchange Act and that has been designed to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms, including controls and procedures designed to ensure that such information is accumulated and communicated to the Company’s management as appropriate to allow timely decisions regarding required disclosure. The Company has carried out evaluations of the effectiveness of its disclosure controls and procedures as required by Rule 13a-15 of the Exchange Act and such

disclosure controls and procedures were effective as of the end of the Company's most recently completed fiscal quarter. The principal executive officers (or their equivalents) and principal financial officers (or their equivalents) of the Company have made all certifications required by the Sarbanes-Oxley Act of 2002 and any related rules and regulations promulgated by the Commission (the "**Sarbanes-Oxley Act**"), and the statements made in each such certification are accurate. The Company, its subsidiaries and, to its knowledge, its directors and officers are each in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act.

(kk) The Company and each of its subsidiaries have filed all federal, state, local and foreign tax returns required to be filed through the date of this Agreement or have requested extensions thereof and have paid all taxes, including any interest, additions to tax or penalties applicable thereto, required to be paid thereon (except where the failure to file or pay would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole, or, except as currently being contested in good faith and for which reserves required by U.S. GAAP have been created in the financial statements of the Company), and no tax deficiency has been determined adversely to the Company or any of its subsidiaries which has had (nor does the Company nor any of its subsidiaries have any notice or knowledge of any tax deficiency which could reasonably be expected to be determined adversely to the Company or its subsidiaries and which could reasonably be expected to have) a material adverse effect on the Company and its subsidiaries, taken as a whole.

(ll) The interactive data in eXtensible Business Reporting Language included or incorporated by reference in the Registration Statement fairly presents the information called for in all material respects and has been prepared in accordance with the Commission's rules and guidelines applicable thereto.

(mm) Neither the Company nor any of its subsidiaries nor, to their knowledge, any of their respective directors, officers, affiliates or controlling persons has taken, directly or indirectly, any action designed, or which has constituted or might reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares.

(nn) Neither the Company nor any of its subsidiaries has taken, directly or indirectly, any action prohibited by Regulation M under the Exchange Act in connection with the distribution of the Shares contemplated hereby. The Common Stock is an "actively traded security" excepted from the

requirements of Rule 101 of Regulation M under the Exchange Act by subsection (c)(1) of such rule.

2. *Sale of Securities.* On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company and each Manager agree that the Company may from time to time seek to sell Shares through a Manager, acting as sales agent (the “**Selling Manager**”) as follows:

(a) The Company may submit its orders (any such order, a “**Placement Notice**”) to the Selling Manager by telephone or email (including any price thresholds, time or size limits or other customary parameters or conditions) to sell Shares on any Trading Day (as defined herein) which order shall be confirmed by such Selling Manager (and accepted by the Company) by email using a form substantially similar to that attached hereto as Exhibit A. As used herein, “**Trading Day**” shall mean any trading day on the NYSE, other than a day on which the NYSE is scheduled to close prior to its regular weekday closing time.

(b) Subject to the terms and conditions hereof, the Selling Manager shall use its commercially reasonable efforts to execute any Placement Notice submitted to it hereunder to sell Shares and with respect to which such Selling Manager has agreed to act as sales agent. The Company acknowledges and agrees that (i) there can be no assurance that such Selling Manager will be successful in selling the Shares, (i) such Selling Manager will incur no liability or obligation to the Company or any other person or entity if it does not sell Shares for any reason other than a failure by the Selling Manager to use its reasonable efforts consistent with its normal trading and sales practices and applicable law and regulations to sell such Shares as required under this Agreement and (i) such Selling Manager shall be under no obligation to purchase Shares on a principal basis pursuant to this Agreement.

(c) The Company shall not authorize the issuance and sale of, and the Selling Manager shall not sell, any Share at a price lower than the minimum price therefor designated by the Company pursuant to Section 2(a) above, or in an amount that, when added to the aggregate gross sales price previously purchased and to be purchased pursuant to pending sales pursuant to this Agreement, exceeds an aggregate gross sales price of \$300,000,000. In addition, the Company or such Selling Manager may, upon notice to the other party hereto by telephone (confirmed promptly by email or facsimile), suspend an offering of the Shares pursuant to this Agreement; *provided, however*, that such suspension or termination shall not affect or impair the parties’ respective obligations with respect to the Shares sold hereunder prior to the giving of such notice.

(d) The Selling Manager shall provide written confirmation (which may be by facsimile or email) to the Company following the close of trading

on the NYSE each day in which Shares are sold under this Agreement setting forth (i) the amount of Shares sold on such day, (i) the gross offering proceeds received from such sale and (i) the compensation payable by the Company to such Selling Manager with respect to such sales pursuant to Section 3.

(e) At each Time of Sale, Settlement Date and Representation Date (as defined below), the Company shall be deemed to have affirmed each representation and warranty contained in this Agreement and to have affirmed its compliance with the covenants and agreements contained in this Agreement. Any obligation of the Selling Manager to use its commercially reasonable efforts to sell the Shares on behalf of the Company as sales agent shall be subject to the continuing accuracy of the representations and warranties and continuing compliance with the covenants and agreements of the Company herein, to the performance by the Company of its obligations hereunder and to the continuing satisfaction of the additional conditions specified in Section 5 of this Agreement.

(f) Notwithstanding any other provision of this Agreement, the Company and the Managers agree that no sales of Shares shall take place, the Company shall not request the sales of any Shares that would be sold and the Managers shall not be obligated to sell or offer to sell, during any period in which the Company's insider trading policy, as it exists on the date of this Agreement, would prohibit the purchase or sale of Common Stock by persons subject to such policy, or during any other period in which the Company is, or could be deemed to be, in possession of material non-public information.

3. *Fee.* The compensation to the Selling Manager for sales of the Shares with respect to which such Selling Manager acts as sales agents hereunder shall be equal to 1.00% of the gross offering proceeds of the Shares sold by such Selling Manager pursuant to this Agreement.

4. *Payment, Delivery and Other Obligations.* Settlement for sales of the Shares pursuant to this Agreement will occur on the second Trading Day (or such earlier day as is industry practice for regular-way trading) following the date on which such sales are made (each such day, a "**Settlement Date**"). On each Settlement Date, the Shares sold through the Selling Manager for settlement on such date shall be issued and delivered by the Company to such Manager against payment of the net proceeds from the sale of such Shares. Settlement for all such Shares shall be effected by free delivery of the Shares by the Company or its transfer agent to the Selling Manager's or its designee's account (*provided* that such Selling Manager shall have given the Company written notice of such designee prior to the Settlement Date) at The Depository Trust Company or by such other means of delivery as may be mutually agreed upon by the Company and the Selling Manager, which in all cases shall be freely tradable, transferable, registered shares in good deliverable form, in return for payment in same day funds delivered to the account designated by the Company. If the Company, or its transfer agent (if applicable),

shall default on its obligation to deliver the Shares on any Settlement Date, the Company shall (i) hold the Selling Manager harmless against any loss, claim, damage, or expense (including reasonable legal fees and expenses), as incurred, arising out of or in connection with such default by the Company and (i) pay such Selling Manager any commission, discount or other compensation to which it would otherwise be entitled absent such default.

5. *Conditions to the Managers' Obligations.* The obligations of the Managers are subject to the following conditions:

(a) Since the later of (A) the date of this Agreement and (B) the immediately preceding Representation Date:

(i) no order suspending the effectiveness of the Registration Statement shall be in effect, and no proceeding for such purpose or pursuant to Section 8A under the Securities Act shall be pending before or threatened by the Commission;

(ii) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded any of the securities of the Company or any of its subsidiaries by any "nationally recognized statistical rating organization", as such term is defined in Section 3(a)(62) of the Exchange Act; and

(iii) there shall not have occurred any change, or any development involving a prospective change, in the assets, business, condition (financial or otherwise), operations or earnings of the Company and its subsidiaries, taken as a whole, from the respective dates of the Registration Statement, the Prospectus and the General Disclosure Package that, in the Managers' judgment, is material and adverse and that makes it, in the Managers' judgment, impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus.

(b) The Managers shall have received on each date specified in Section 6(l) a certificate, dated such date and signed by an executive officer of the Company, to the effect set forth in Sections 5(a)(i) and 5(a)(ii) above and to the effect that (i) the representations and warranties of the Company contained in this Agreement are true and correct as of such date; (i) the Company has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or before such date; (i) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceeding for that purpose has been initiated or, to the knowledge of the Company, threatened by the Commission; (i) the Prospectus Supplement, any Interim Prospectus Supplement and each

Permitted Free Writing Prospectus have been timely filed with the Commission under the Securities Act (in the case of a Permitted Free Writing Prospectus, to the extent required by Rule 433 under the Securities Act), and all requests for additional information on the part of the Commission have been complied with or otherwise satisfied; (i) as of such date and as of each Time of Sale, if any, prior to such date, the Registration Statement did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading; and (i) as of such date and as of each Time of Sale, if any, prior to such date, the General Disclosure Package did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however*, that no such certificate shall apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by the Managers expressly for use in the General Disclosure Package (it being understood and agreed that such information consists solely of the information specified in Section 8(b)).

The officer signing and delivering such certificate may rely upon the best of his or her knowledge as to proceedings threatened.

(c) The Managers shall have received on each date specified in Section 6(m), and on such other dates as may be reasonably requested by the Managers, an opinion and negative assurance letter of Gibson, Dunn & Crutcher LLP, outside counsel for the Company, dated such date, in form and substance reasonably satisfactory to the Managers.

(d) The Managers shall have received on the initial Representation Date, and on such other dates as may be reasonably requested by the Managers in the event there is a change in the California Public Utilities Code that could regulate the issuance of the Shares, an opinion of Nossaman LLP, regulatory counsel for the Company, regarding certain regulatory matters, dated such date, in form and substance reasonably satisfactory to the Managers.

(e) The Managers shall have received on each date specified in Section 6(n), and on such other dates as may be reasonably requested by the Managers, an opinion and negative assurance letter of Shearman & Sterling LLP, counsel for the Managers, dated such date, in form and substance reasonably satisfactory to the Managers.

The opinions of counsel for the Company described in Section 5(c) and Section 5(d) above shall be rendered to the Managers at the request of the Company and shall so state therein.

(f) The Managers shall have received on each date specified in Section 6(o), a letter dated such date in form and substance reasonably satisfactory to the Managers, from Deloitte & Touche LLP, independent public accountants for the Company, (A) confirming that they are an independent registered public accounting firm within the meaning of the Securities Act, the Exchange Act and the Public Company Accounting Oversight Board, (A) stating, as of such date, the conclusions and findings of such firm with respect to the financial information and other matters ordinarily covered by accountants' "comfort letters" to underwriters in connection with registered public offerings (the first such letter, the "**Initial Comfort Letter**") and updating the Initial Comfort Letter with any information that would have been included in the Initial Comfort Letter had it been given on such date and modified as necessary to relate to the Registration Statement, the Prospectus Supplement, the Prospectus or any issuer free writing prospectus relating to the offer and sale of the Shares, as amended and supplemented to the date of such letter.

(g) All filings with the Commission required by Rule 424 under the Securities Act in connection with the offer and sale of the Shares have been filed by each Time of Sale or related Settlement Date shall have been made within the applicable time period prescribed for such filing by Rule 424 (without reliance on Rule 424(b)(8)).

(h) The Shares shall have been approved for listing on the NYSE, subject only to a notice of issuance at or prior to the applicable Settlement Date.

(i) The Common Stock shall be an "actively-traded security" excepted from the requirements of Rule 101 of Regulation M under the Exchange Act by subsection (c)(1) of such rule.

6. *Covenants of the Company.* The Company covenants with the Managers as follows:

(a) To furnish to the Managers copies of the Registration Statement (excluding exhibits) and copies of the Prospectus (or the Prospectus as amended or supplemented) in such quantities as the Managers may from time to time reasonably request. In case a Manager is required to deliver, under the Securities Act (whether physically or through compliance with Rule 172 under the Securities Act or any similar rule), a prospectus relating to the Shares after the nine-month period referred to in Section 10(a)(3) of the Securities Act, or after the time a post-effective amendment to the Registration Statement is required pursuant to Item 512(a) of Regulation S-K under the Securities Act, upon the request of any Manager, and at its own expense, the Company shall prepare and deliver to each Manager as many copies as each Manager may reasonably request of an amended Registration Statement or amended or

supplemented prospectus complying with Item 512(a) of Regulation S-K or Section 10(a)(3) of the Securities Act, as the case may be; *provided, however*, that the Company shall not be required to furnish any document (other than the Prospectus) to the Managers to the extent such document is available on the Commission's Electronic Data Gathering, Analysis and Retrieval system or any successor system thereto ("EDGAR").

(b) Before amending or supplementing the Registration Statement or the Prospectus, other than amendments or supplements deemed to be made by filing an Incorporated Document, to furnish to the Managers a copy of each such proposed amendment or supplement and not to file any such proposed amendment or supplement to which any Manager reasonably objects (other than any prospectus supplement relating to the offering of Shelf Securities other than the Shares). To furnish to the Managers a copy of each proposed free writing prospectus relating to the offer and sale of Shares to be prepared by or on behalf of, used by, or referred to by the Company and not to use or refer to any proposed free writing prospectus relating to the offer and sale of Shares to which any Manager reasonably objects. Not to take any action that would result in a Manager or the Company being required to file with the Commission pursuant to Rule 433(d) under the Securities Act a free writing prospectus relating to the offer and sale of Shares prepared by or on behalf of such Manager that such Manager otherwise would not have been required to file thereunder.

(c) To file, subject to Section 6(b) above, promptly all reports and any definitive proxy or information statements required to be filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus Supplement and for the duration of the Delivery Period. For the duration of the Delivery Period, to include in its quarterly reports on Form 10-Q, and in its annual reports on Form 10-K, a summary detailing, for the relevant reporting period, (i) the number of Shares sold through the Managers pursuant to this Agreement, (i) the net proceeds received by the Company from such sales and (i) the compensation paid by the Company to the Managers with respect to such sales (or alternatively, to prepare a prospectus supplement (each, an "**Interim Prospectus Supplement**") with such summary information and, at least once a quarter and subject to Section 6(b) above, file such Interim Prospectus Supplement pursuant to Rule 424(b) under the Securities Act (and within the time periods required by Rule 424(b) and Rules 430A, 430B or 430C under the Securities Act)).

(d) To file any Permitted Free Writing Prospectus to the extent required by Rule 433 under the Securities Act and to provide copies of the Prospectus and such Prospectus Supplement and each Permitted Free Writing Prospectus (to the extent not previously delivered or filed on EDGAR) to each

Manager via email in “.pdf” format on such filing date to an email account designated by each Manager and, at any Manager’s request, to also furnish copies of the Prospectus and such Prospectus Supplement to the NYSE and each other exchange or market on which sales of the Shares were effected, in each case, as may be required by the rules or regulations of the NYSE or such other exchange or market.

(e) During the Delivery Period to advise the Managers, promptly after it receives notice thereof, of the issuance of any stop order by the Commission, of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement, the Prospectus Supplement, the Prospectus or any Permitted Free Writing Prospectus or for additional information; and, in the event of the issuance of any such stop order or of any order preventing or suspending the use of any prospectus relating to the Shares or suspending any such qualification, to promptly use its best efforts to obtain its withdrawal.

(f) If, after the date hereof and during the Delivery Period, either (i) any event shall occur or condition exist as a result of which the Prospectus would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or (i) for any other reason it shall be necessary during such same period to amend or supplement the Prospectus or to file any document in order to comply with the Securities Act or the Exchange Act, to promptly advise the Managers by telephone (with confirmation in writing or email) and to promptly prepare and file, subject to Section 6(b) above, with the Commission an amendment or supplement to the Registration Statement or the Prospectus which will correct such statement or omission or effect such compliance and to furnish to the Managers as many copies as the Managers may reasonably request of such amendment or supplement.

(g) To endeavor to qualify the Shares for offer and sale under the securities or Blue Sky laws of such jurisdictions as the Managers shall reasonably request and to continue such qualifications in effect so long as necessary under such laws for the distribution of the Shares; provided, however, that nothing contained herein shall require the Company to qualify to do business in any jurisdiction or to execute a general consent to service of process in any jurisdiction in which it is not otherwise subject.

(h) To make generally available to the Company’s security holders and to the Managers as soon as practicable an earnings statement covering a period of at least 12 months beginning with the first fiscal quarter of the

Company occurring after the date of this Agreement which shall satisfy the provisions of Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder.

(i) Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, to pay or cause to be paid all expenses incident to the performance of its obligations under this Agreement, including: (i) the fees, disbursements and expenses of the Company's counsel and the fees, disbursements and expenses of the Company's accountants, each in connection with the registration and delivery of the Shares under the Securities Act and all other fees or expenses in connection with the preparation and filing of the Registration Statement, any Prospectus Supplement, the Prospectus, any free writing prospectus relating to the offer and sale of the Shares prepared by or on behalf of, used by, or referred to by the Company and amendments and supplements to any of the foregoing, including the filing fees payable to the Commission relating to the Shares (within the time required by Rule 456(b)(1), if applicable), all printing costs associated therewith, and the mailing and delivering of copies thereof to each of the Managers, in the quantities hereinabove specified, (i) all costs and expenses related to the transfer and delivery of the Shares, including any transfer or other taxes payable thereon, (j) all expenses in connection with the qualification of the Shares for offer and sale under state securities laws as provided in Section 6(g) above, including filing fees and the reasonable fees and disbursements of counsel for the Managers in connection with such qualification, (i) all filing fees and the reasonable fees and disbursements of counsel to the Managers (up to an amount not to exceed \$10,000) incurred in connection with review and qualification by FINRA of the offering contemplated by this Agreement, (i) all costs and expenses incident to listing the Shares on the NYSE, (i) the costs and charges of any transfer agent, registrar or depositary, and (i) all other costs and expenses incident to the performance of the obligations of the Company hereunder for which provision is not otherwise made in this Section 6. It is understood, however, that except as provided in this Section 6 and Section 8, each Manager will pay all of its costs and expenses, including any advertising expenses connected with any offers such Manager may make.

(k) In the event this Agreement has not been terminated, if the third anniversary of the initial effective date of the Registration Statement occurs before all the Shares have been sold, prior to such third anniversary, to file, subject to Section 6(b), a new shelf registration statement and to take any other action necessary to permit the public offering of the Shares to continue without interruption (references herein to the Registration Statement shall include the new registration statement declared effective by the Commission).

(l) To use its commercially reasonable efforts to cause the Shares to be listed for trading on the NYSE and to maintain such listing.

(m) Upon commencement of the offering of the Shares under this Agreement (and upon the recommencement of the offering of the Shares under this Agreement following the termination of a suspension of sales hereunder), and each time that (i) the Registration Statement or the Prospectus is amended or supplemented (other than (x) amendments or supplements deemed to be made by filing an Incorporated Document or (y) a prospectus supplement relating solely to the offering of Shelf Securities other than the Shares) or (i) there is filed with the Commission any document incorporated by reference into the Prospectus (other than a Current Report on Form 8-K, unless the Managers shall otherwise reasonably request and the Managers reasonably determine that the information contained in, or incorporated by reference into, such Form 8-K is material to a holder of Common Stock or to an offering of the Shares) (such commencement date (and any such recommencement date, if applicable) and each such date referred to in (i) and (ii) above, a “**Representation Date**”), to furnish or cause to be furnished to the Managers forthwith a certificate dated and delivered within two business days of such Representation Date, in form reasonably satisfactory to the Managers, to the effect that the statements contained in the certificate referred to in Section 5(b) of this Agreement are true and correct at the time of such commencement, recommencement, amendment, supplement or filing, as the case may be, as though made at and as of such time modified as necessary to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such certificate. The requirement to deliver a certificate under this Section 6(l), other than the requirement to deliver a certificate under this Section 6(l) when the Company files an Annual Report on Form 10-K under the Exchange Act, shall be automatically waived at a time at which no Placement Notice is pending (a “**Waiver**”), which Waiver shall continue until the earlier to occur of the date the Company delivers a Placement Notice hereunder (which for such calendar quarter shall be considered a Representation Date) and the next occurring Representation Date. Notwithstanding the foregoing, if the Company subsequently decides to sell Shares following a Representation Date when the Company relied on a Waiver and did not provide the Managers with a certificate under this Section 6(l), then before the Company delivers the Placement Notice or a Selling Manager sells any Shares, the Company shall provide the Manager with a certificate required under this Section 6(l), dated the date of the Placement Notice.

(n) (i) On the initial Representation Date and thereafter within two business days of each subsequent Representation Date for which the Company delivers a certificate pursuant to Section 6(l), the Company shall cause to be furnished to the Managers, dated as of such date, in form and substance

satisfactory to the Managers, the written opinion and negative assurance letter of Gibson, Dunn & Crutcher LLP, outside counsel for the Company, as described in Section 5(c), modified as necessary to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such opinion; and (ii) on the initial Representation Date, the Company shall cause to be furnished to the Managers, dated as of such date, in form and substance satisfactory to the Managers, the written opinion of Nossaman LLP, outside regulatory counsel for the Company, as described in Section 5(d), modified as necessary to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such opinion.

(o) On the initial Representation Date and thereafter within two business days of each subsequent Representation Date for which the Company delivers a certificate pursuant to Section 6(l), Shearman & Sterling LLP, counsel to the Managers, shall furnish to the Managers, dated as of such date, in form and substance satisfactory to the Managers, the written opinion and negative assurance letter, as described in Section 5(e), modified as necessary to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such opinion.

With respect to Sections 6(m) and 6(n) above, in lieu of delivering such an opinion and negative assurance letter for dates subsequent to the commencement of the offering of the Shares under this Agreement such counsel may furnish the Managers with a letter to the effect that the Managers may rely on a prior opinion and negative assurance letter delivered under Section 6(m) or Section 6(n), as the case may be, to the same extent as if it were dated the date of such letter (except that statements in such prior opinion shall be deemed to relate to the Registration Statement and the Prospectus as amended or supplemented as of such subsequent Representation Date).

(p) Upon commencement of the offering of the Shares under this Agreement (and upon the recommencement of the offering of the Shares under this Agreement following the termination of a suspension of sales hereunder) and within two business days of each time that (i) the Registration Statement or the Prospectus is amended or supplemented to include additional financial information (other than (x) amendments or supplements deemed to be made by filing an Incorporated Document or (y) a prospectus supplement relating solely to the offering of Shelf Securities other than the Shares), (i) the Company files an annual report on Form 10-K or quarterly report on Form 10-Q, (i) there is filed with the Commission any document (other than an annual report on Form 10-K or quarterly report on Form 10-Q) incorporated by reference into the Prospectus which contains additional or amended financial information if the Managers reasonably request and the Managers reasonably determine that such information is material to a holder of Common Stock or to an offering of the Shares or (i) on such other dates as may be reasonably

requested by the Managers, Deloitte & Touche LLP, independent public accountants of the Company, shall deliver to the Managers the comfort letter(s) described in Section 5(f).

(q) To comply with the Due Diligence Protocol attached hereto on Schedule II and any other due diligence review or call reasonably requested by any of the Managers, unless a Waiver is applicable. Notwithstanding the foregoing, if the Company subsequently decides to sell Shares following a Representation Date when the Company relied on a Waiver, then the Company shall comply with the Due Diligence Protocol before the Company delivers a Placement Notice (which for such calendar quarter shall be considered a Representation Date) or a Selling Manager sells any Shares.

(r) To reserve and keep available at all times, free of preemptive rights, Shares for the purpose of enabling the Company to satisfy its obligations hereunder.

(s) That it consents to each Manager trading in the Common Stock for such Manager's own accounts and for the account of its clients at the same time as sales of the Shares occur pursuant to this Agreement.

(t) That each acceptance by the Company of an offer to purchase the Shares hereunder shall be deemed to be an affirmation to the Managers for the purpose of performing their obligations pursuant to this Agreement that the representations and warranties of the Company contained in or made pursuant to this Agreement are true and correct as of such date, and an undertaking that such representations and warranties will be true and correct, as of the Time of Sale and the Settlement Date for the Shares relating to such acceptance as though made at and as of each of such dates (except that such representations and warranties shall be deemed to relate to the Registration Statement and the Prospectus as amended and supplemented relating to such Shares); for clarification, the affirmation of the representations and warranties shall not be used for any purpose other than performing their obligations pursuant to this Agreement.

(u) Prior to instructing a Selling Manager pursuant to Section 2 hereof to make sales on any given day (or as otherwise agreed between the Company and the Managers), a subcommittee of the Company's board of directors (the "**Board**"), authorized by either the Board or any authorized committee of the Board, (i) shall have approved the minimum price and maximum number of Shares to be sold and (i) shall have provided to the Company an authorizing resolution approving such minimum price and maximum number. The Placement Notice provided to such Selling Manager by the Company, pursuant to Section 2, on such day shall reflect the terms of such authorizing resolution.

(v) Not to sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to sell or otherwise dispose of or agree to dispose of, directly or indirectly, any shares of the Common Stock or securities convertible into or exchangeable or exercisable for the Common Stock or warrants or other rights to purchase the Common Stock or any other securities of the Company that are substantially similar to the Common Stock or permit the registration under the Securities Act of any shares of the Common Stock, except for (i) the registration of the Shares and the sales through the Managers pursuant to this Agreement, (i) any shares of Common Stock issued by the Company upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof and referred to in the Prospectus, (i) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to existing employee benefit plans of the Company or (w) any shares of Common Stock issued pursuant to any non-employee director stock plan, equity incentive plan, dividend reinvestment plan or stock purchase plan of the Company, during the Delivery Period, without (A) giving the Managers at least three business days' prior written notice specifying the nature of the proposed sale and the date of such proposed sale and (A) the Managers suspending activity under this program for such period of time as requested by the Company.

(x) That any offer to sell, any solicitation of an offer to buy or any sales of Shares shall be effected by or through only one of the Managers on any single given day, but in no event by more than one, and the Company shall in no event request that more than one Manager sell Shares on the same day.

(y) The Company will not (i) take, directly or indirectly, any action designed to or that would constitute or that might reasonably be expected to cause or result in, under the Exchange Act or otherwise, unlawful stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares or (ii) sell, bid for, purchase or pay any person any compensation for soliciting purchases of the Shares except pursuant to this Agreement.

7. *Covenants of the Managers*. Each Manager covenants with the Company as follows:

(a) Not to take any action that would result in the Company being required to file with the Commission under Rule 433(d) a free writing prospectus prepared by or on behalf of a Manager that otherwise would not be required to be filed by the Company thereunder, but for the action of such Manager.

(b) To keep Placement Notices submitted pursuant to this Agreement, including the content and existence thereof, strictly confidential, to not use

such information other than for fulfilling its obligations under this Agreement, and to not disclose such information, except: (a) as required or requested by applicable law, regulation, regulatory or legal process, or (b) to its employees and representatives who need to know such information for fulfilling its obligations under this Agreement.

8. *Indemnity and Contribution.* (a) The Company agrees to indemnify and hold harmless each of the Managers, the directors, officers, employees, affiliates and agents of any Manager, and each person, if any, who controls any of the Managers within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act and each affiliate of each of the Managers within the meaning of Rule 405 under the Securities Act from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) that arise out of, or are based upon, any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, the Prospectus, the Prospectus Supplement (including any Interim Prospectus Supplement), the General Disclosure Package, any free writing prospectus that the Company has filed, or is required to file, pursuant to Rule 433(d) under the Securities Act, or any amendment or supplement thereto, or arise out of, or are based upon, any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities arise out of, or are based upon, any such untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with any information relating to the Managers furnished to the Company in writing by the Managers expressly for use therein (it being understood and agreed that such information consists solely of the information specified in Section 8(b)).

(a) The Managers, severally and not jointly, agree to indemnify and hold harmless the Company, its directors, its officers, and each person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to the Managers, but only with reference to information relating to the Managers furnished to the Company in writing by the Managers expressly for use in the Registration Statement, the Prospectus, the Prospectus Supplement (including any Interim Prospectus Supplement), the General Disclosure Package, any free writing prospectus that the Company has filed, or is required to file, pursuant to Rule 433(d) under the Securities Act, or any amendment or supplement thereto (it being understood and agreed that such information consists solely of the following information in the Prospectus: (i) the names of the Managers, and (ii) the first through fifth sentences in the last paragraph in the section "Plan of Distribution.").

(b) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Section 8(a) or 8(b), such person (the “**indemnified party**”) shall promptly notify the person against whom such indemnity may be sought (the “**indemnifying party**”) in writing, and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (i) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all such indemnified parties and that all such fees and expenses shall be reimbursed as they are incurred. Such firm shall be designated in writing by the applicable Manager or Managers, in the case of parties indemnified pursuant to Section 8(a), and by the Company, in the case of parties indemnified pursuant to Section 8(b). The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second and third sentences of this paragraph, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(c) To the extent the indemnification provided for in Section 8(a) or 8(b) is unavailable to an indemnified party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party under such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, on the one hand, and the applicable Manager or Managers, on the other hand, from the offering of the Shares or (i) if the allocation provided by Section 8(d)(i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in Section 8(d)(i) above but also the relative fault of the Company, on the one hand, and of the applicable Manager or Managers, on the other hand, in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the applicable Manager or Managers, on the other hand, in connection with the offering of the Shares shall be deemed to be in the same respective proportions as the net proceeds from the offering of the Shares (before deducting expenses) received by the Company bear to the total commissions received by the applicable Manager or Managers. The relative fault of the Company, on the one hand, and the applicable Manager or Managers, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the Managers and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(d) The Company and each Manager agree that it would not be just or equitable if contribution pursuant to this Section 8 were determined by *pro rata* allocation or by any other method of allocation that does not take account of the equitable considerations referred to in Section 8(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in Section 8(d) shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8, the applicable Manager or Managers shall not be required to contribute any amount in excess of the amount by which the total price at which the Shares sold by it or them were offered to the public exceeds the amount of any damages that the applicable Manager or Managers have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act)

shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 8 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

(e) The indemnity and contribution provisions contained in this Section 8 and the representations, warranties and other statements of the Company contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (i) any investigation made by or on behalf of the Managers, any person controlling any of the Managers or any affiliate of any of the Managers or other indemnified parties referred to in Section 8(a) or by or on behalf of the Company, its officers or directors or any person controlling the Company and (i) acceptance of and payment for any of the Shares.

9. *Effectiveness.* This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

10. *Termination.* (a) The Company shall have the right, by giving written notice as hereinafter specified, to terminate this Agreement in its sole discretion at any time. This Agreement shall automatically terminate on the date that is one business day prior to the third anniversary of the initial effective date of the Registration Statement, without any notice requirement, in the event that the Company does not file a new shelf registration statement relating to the Shares on or prior to such date; *provided, however,* that if a Placement Notice is pending, the Company will provide written notice to the applicable Selling Managers of such termination. Any terminations pursuant to this Section 10 shall be without liability of any party to any other party, except that (i) with respect to any pending sale through a Manager or Managers for the Company, the obligations of each of the Company and the Manager pursuant to Sections 3, 4, 5, 6 and 7 shall remain in full force and effect notwithstanding such termination with respect to and to the extent of the Shares to be sold in such pending sale; and (i) the provisions of Section 1, Section 7(b), and Section 8 of this Agreement shall remain in full force and effect notwithstanding such termination.

(a) Each Manager, acting for itself, shall have the right, by giving written notice to the Company and to each other Manager, and as hereinafter specified, to terminate this Agreement, solely with respect to itself, in its sole discretion at any time. Any such termination shall be without liability of any party to any other party except that (i) with respect to any pending sale through such terminating Manager for the Company, the obligations of each of the Company and the Manager pursuant to Sections 3, 4, 5, 6 and 7 shall remain in full force and effect notwithstanding such termination with respect to and to the extent of the Shares to be sold in such pending sale; and (i) the provisions of Section 1, Section 7(b), and Section 8 of this Agreement shall remain in full force and effect notwithstanding such termination.

(b) This Agreement shall remain in full force and effect until and unless terminated pursuant to Section 10(a) or (b) above or otherwise by mutual agreement of the parties; *provided* that any such termination by mutual agreement or pursuant to this clause (c) shall in all cases be deemed to provide that Section 1, Section 7(b), and Section 8 of this Agreement shall remain in full force and effect.

(c) Any termination of this Agreement shall be effective on the date specified in such notice of termination; *provided* that such termination shall not be effective until the close of business on the date of receipt of such notice by the Managers or the Company, as the case may be. If such termination shall occur prior to the Settlement Date for any sale of Shares, such sale shall settle in accordance with the provisions of Section 4.

11. *Entire Agreement.* (a) This Agreement represents the entire agreement between the Company and each Manager with respect to the preparation of any Registration Statement, Prospectus Supplement or the Prospectus, the conduct of the offering and the sale and distribution of the Shares.

(a) The Company acknowledges that in connection with the offering of the Shares: (i) the Managers have acted and will act at arm's length and owe no fiduciary duties to, the Company or any other person, (i) the Managers owe the Company only those duties and obligations set forth in this Agreement and prior written agreements (to the extent not superseded by this Agreement), if any, and (i) the Managers may have interests that differ from those of the Company. The Company waives to the full extent permitted by applicable law any claims it may have against any of the Managers arising from an alleged breach of fiduciary duty in connection with the sale and distribution of the Shares.

12. *Recognition of the U.S. Special Resolution Regimes.* (a) In the event that any Manager is a Covered Entity that becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer from such Manager of this Agreement, and any interest and obligation in or under this Agreement, will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if this Agreement, and any such interest and obligation, were governed by the laws of the United States or a state of the United State.

(a) In the event that any Manager is a Covered Entity or a BHC Act Affiliate of such Manager becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under this Agreement that may be exercised against such Manager are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if this Agreement were governed by the laws of the United States or a state of the United States.

For purposes of this Section a “**BHC Act Affiliate**” has the meaning assigned to the term “affiliate” in, and shall be interpreted in accordance with, 12 U.S.C. § 1841(k). “**Covered Entity**” means any of the following: (i) a “covered entity” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b); (ii) a “covered bank” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or (iii) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b). “**Default Right**” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable. “**U.S. Special Resolution Regime**” means each of (i) the Federal Deposit Insurance Act and the regulations promulgated thereunder and (ii) Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations promulgated thereunder.

13. *Counterparts.* This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery of a signed counterpart of this Agreement by facsimile or other electronic transmission (including in “.pdf” format) shall constitute valid and sufficient delivery thereof.

14. *Applicable Law.* This Agreement and any claim, controversy or dispute arising under or related thereto shall be governed by and construed in accordance with the internal laws of the State of New York.

15. *Headings.* The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

Notices. All communications hereunder shall be in writing and effective only upon receipt and if to the Managers shall be delivered, mailed or sent to Morgan Stanley & Co. LLC, 1585 Broadway, New York, NY 10036 (Attn: Equity Syndicate Desk, with a copy to the Legal Department), Robert W. Baird & Co. Incorporated, 777 E. Wisconsin Avenue, Milwaukee, WI 53202, Blaylock Van, LLC, 600 Lexington Avenue, Floor 3, New York, NY 10022 and Wells Fargo Securities, LLC, Attn: Equity Syndicate Department, 375 Park Avenue New York, NY 10152, telephone: (800) 326-5897, email: cmclientsupport@wellsfargo.com; and if to the Company shall be delivered, mailed or sent to California Water Service Group, 1720 North First Street, San Jose, CA 95112-4598, Attn: General Counsel, telephone: (408) 367-8200.

[Signature page follows]

Very truly yours,

CALIFORNIA WATER SERVICE GROUP

By: /s/ Thomas F. Smegal III
Name: Thomas F. Smegal III
Title: Vice President, Chief Financial
Officer and Treasurer

Accepted as of the date first written above

MORGAN STANLEY & CO. LLC

By: /s/ James Watts
Name: James Watts
Title: Executive Director

ROBERT W. BAIRD & CO. INCORPORATED

By: /s/ Sandy Walter
Name: Sandy Walter
Title: Director

WELLS FARGO SECURITIES, LLC

By: /s/ Michael Tiedemann
Name: Michael Tiedemann
Title: Managing Director

Permitted Free Writing Prospectuses

None.

Due Diligence Protocol

Set forth below are guidelines for use by the Company and the Managers in connection with the Managers' continuous due diligence efforts in connection with the sale and distribution of the Shares pursuant to the Agreement. For the avoidance of doubt, the Company has agreed that no sales under the Agreement will be requested or made at any time the Company is, or could be deemed to be, in possession of material non-public information with respect to the Company.

1. On or immediately prior to each Representation Date, in addition to the documents provided pursuant to Sections 6(l), (m), (n) and (o) of the Agreement, the Managers expect to conduct a due diligence call with the appropriate business, financial and legal representatives of the Company.
2. On the date of or promptly after the reasonable request by the Managers, but not more than once per month, the Managers expect to conduct a due diligence call with the appropriate business, financial, accounting and/or legal representatives of the Company and that the Company shall provide the certificate referred to in Section 5(b) of the Agreement.
3. In the event that the Company requests a Selling Manager to sell on any one Trading Day an amount of Shares that would be equal to or greater than 20% of the average daily trading volume (calculated based on the most recent three completed Trading Days) of the Company's common stock, the Seller Manager(s) expect(s) to conduct a due diligence call with the appropriate business, financial, accounting and legal representatives of the Company and that the Company shall provide the certificate referred to in Section 5(b) of the Agreement.

The foregoing is an expression of current intent only, and shall not in any manner limit the Managers' rights under the Agreement, including the Managers' right to require such additional due diligence procedures as the Managers may reasonably request pursuant to the Agreement.

[Manager Letterhead]

[____], 20[]

[]

[]

Attention: [____]

VIA ELECTRONIC MAIL

TRANSACTION CONFIRMATION

Dear [____]:

This Confirmation sets forth the terms of the agreement of [MANAGER] (a “**Selling Manager**”) with California Water Service Group (the “**Company**”) relating to the issuance and sale of shares of the Company’s common stock, par value \$0.01 per share, having an aggregate gross sales price of up to \$300,000,000 pursuant to the Equity Distribution Agreement between the Company and Morgan Stanley & Co. LLC, Robert W. Baird & Co. Incorporated, Blaylock Van, LLC and Wells Fargo Securities, LLC (the “**Managers**”), dated October 31, 2019 (the “**Agreement**”). Unless otherwise defined below, capitalized terms defined in the Agreement shall have the same meanings when used herein.

By countersigning or otherwise indicating in writing the Company’s acceptance of this Confirmation (an “**Acceptance**”), the Company shall have agreed with the Selling Manager to engage in the following transaction:

- Number of Shares to be sold: _____
- Minimum price at which Shares may be sold: _____
- Date(s) on which Shares may be sold: _____
- Compensation to Manager (if different than the Agreement): _____

The transaction set forth in this Confirmation will not be binding on the Company or the Manager unless and until the Company delivers its Acceptance; *provided, however*, that neither the Company nor the Manager will be bound by the terms of this Confirmation unless the Company delivers its Acceptance by [] a.m./p.m. (New York time) on [the date hereof]/[[], 20[]].

The transaction, if it becomes binding on the parties, shall be subject to all of the representations, warranties, covenants and other terms and conditions of the Agreement, except to the extent amended or modified hereby, all of which are expressly incorporated herein by reference. Each of the representations and warranties set forth in the Agreement shall be deemed to have been made at and as of every Time of Sale, every Settlement Date and every Representation Date.

If the foregoing conforms to your understanding of our agreement, please so indicate your Acceptance by signing below.

Very truly yours,

[Selling Manager]

By: _____
Name:
Title:

ACCEPTED as of the date
first above written

CALIFORNIA WATER SERVICE GROUP

By: _____
Name:
Title:

[Note: The Company’s Acceptance may also be evidenced by a separate written acceptance referencing this Confirmation and delivered in accordance with the Agreement]

October 31, 2019

California Water Service Group
1720 North First Street
San Jose, CA 95112

Re: *California Water Service Group*
Registration Statement on
Form S-3

Ladies and Gentlemen:

We have examined the Registration Statement on Form S-3, File No. 333-234389, as amended (the "Registration Statement"), of California Water Service Group, a Delaware corporation (the "Company"), filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Act of 1933, as amended (the "Securities Act"), and the prospectus supplement thereto, dated October 31, 2019 (the "Prospectus Supplement"), in connection with the offering by the Company of up to \$300,000,000 shares (the "Shares") of the Company's common stock, par value \$0.01 per share (the "Common Stock").

In arriving at the opinion expressed below, we have examined originals, or copies certified or otherwise identified to our satisfaction as being true and complete copies of the originals, of specimen Common Stock certificates and such other documents, corporate records, certificates of officers of the Company and of public officials and other instruments as we have deemed necessary or advisable to enable us to render the opinion set forth below. In our examination, we have assumed without independent investigation the genuineness of all signatures, the legal capacity and competency of all natural persons, the authenticity of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as copies.

Based upon the foregoing, and subject to the assumptions, exceptions, qualifications and limitations set forth herein, we are of the opinion that the Shares, when issued against payment therefor as set forth in the Registration Statement and the Prospectus Supplement, will be validly issued, fully paid and non-assessable.

We consent to the filing of this opinion as an exhibit to the Registration Statement, and we further consent to the use of our name under the caption "Legal Matters" in the Registration Statement and the Prospectus Supplement. In giving these consents, we do not thereby admit

October 31, 2019

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that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission.

Very truly yours,

/s/ Gibson, Dunn & Crutcher LLP

**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, 2019, 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 31, 2019

By: /s/ Martin A. Kropelnicki
MARTIN A. KROPELNICKI
President and Chief Executive Officer

**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, 2019, 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 31, 2019

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

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, 2019 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 31, 2019

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

Date: October 31, 2019

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