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

Form 10-K

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

For the fiscal year ended December 31, 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 No. 1-13883

CALIFORNIA WATER SERVICE GROUP

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

1720 North First Street

San Jose, California

(Address of Principal Executive Offices)

77-0448994

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

95112

(Zip Code)

(408) 367-8200

(Registrant's Telephone Number, including Area Code)

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

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

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

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

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

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). 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.

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 Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was \$2,437 million on June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter. The valuation is based on the closing price of the registrant's common stock as traded on the New York Stock Exchange.

The Common stock outstanding at February 10, 2020 was 48,536,524 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required to be disclosed in Part III of this report is incorporated by reference from the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on or about May 27, 2020. The proxy statement is expected to be filed no later than 120 days after the end of the fiscal year covered by this report.

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PART I

Item 1. *Business.*

Forward-Looking Statements

This annual report, including all documents incorporated by reference, contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this annual 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," "targets," "forecasts," "should," "could," "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;
- housing and customer growth;
- 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 risks and threats;
- the ability of our enterprise risk management processes to identify or address risks adequately;
- labor relations matters as we negotiate with the unions;

- changes in customer water use patterns and the effects of conservation;
- the impact of weather, climate, natural disasters, and epidemic or pandemic diseases on our operations, 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 elsewhere in this annual report.

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 annual report or as of the date of any document incorporated by reference in

this annual report, as applicable. When considering forward-looking statements, investors should keep in mind the cautionary statements in this annual 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.

Overview

California Water Service Group is a holding company incorporated in Delaware in 1999 with six operating subsidiaries: California Water Service Company (Cal Water), New Mexico Water Service Company (New Mexico Water), Washington Water Service Company (Washington Water), Hawaii Water Service Company, Inc. (Hawaii Water), and CWS Utility Services and HWS Utility Services LLC (CWS Utility Services and HWS Utility Services LLC being referred to collectively in this annual report as Utility Services). Cal Water, New Mexico Water, Washington Water, and Hawaii Water are regulated public utilities. The regulated utility entities also provide some non-regulated services. Utility Services holds non-utility property and provides non-regulated services to private companies and municipalities outside of California. Cal Water was the original operating company and began operations in 1926.

Our business is conducted through our operating subsidiaries and we provide utility services to approximately two million people. The bulk of the business consists of the production, purchase, storage, treatment, testing, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. In some areas, we provide wastewater collections and treatment services, including treatment which allows water recycling. We also provide non-regulated water-related services under agreements with municipalities and other private companies. The non-regulated services include full water system operation, billing and meter reading services. Non-regulated operations also include the lease of communication antenna sites, lab services and promotion of other non-regulated services.

During the year ended December 31, 2019, there were no significant changes in the kind of products produced or services rendered by our operating subsidiaries, or in the markets or methods of distribution.

Our mailing address and contact information is:

California Water Service Group
1720 North First Street
San Jose, California 95112-4598
telephone number: 408-367-8200
www.calwatergroup.com

Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports are available free of charge through our website at www.calwatergroup.com. The reports are available on our website as soon as reasonably practicable after such reports are filed with the SEC.

The content on any website referred to in this annual report is not incorporated by reference in this annual report unless expressly noted.

Regulated Business

California water operations are conducted by Cal Water, which provides service to approximately 489,600 customer connections in approximately 100 California communities through 21 separate districts, which are subject to regulation by the California Public Utilities Commission (CPUC). Cal Water operates two leased water systems, the City of Hawthorne and the City of Commerce, which are governed through their respective city councils and are outside of the CPUC's jurisdiction. California water operations accounted for approximately 94.0% of our total customer connections and 93.8% of our total consolidated operating revenue.

Hawaii Water provides service to approximately 5,000 water and wastewater customer connections on the islands of Maui and Hawaii, including several large resorts and condominium complexes. Hawaii Water's regulated customer connections are subject to the jurisdiction of the Hawaii Public Utilities Commission (HPUC). Hawaii Water accounts for 1.0% of our total customer connections and approximately 3.8% of our total consolidated operating revenue.

Washington Water provides domestic water service to approximately 17,700 customer connections in the Tacoma and Olympia areas. Washington Water's utility operations are regulated by the Washington Utilities and Transportation Commission. Washington Water accounts for approximately 3.4% of our total customer connections and approximately 1.8% of our total consolidated operating revenue.

New Mexico Water provides service to approximately 8,300 water and wastewater customer connections in the Belen, Los Lunas, Indian Hills, and Elephant Butte areas in New Mexico. New Mexico's regulated operations are subject to the jurisdiction of the New Mexico Public Regulation Commission. New Mexico Water accounts for approximately 1.6% of our total customer connections and 0.6% of our total consolidated operating revenue.

The state regulatory bodies governing our regulated operations are referred to as the Commissions in this annual report. Rates and operations for regulated customers are subject to the jurisdiction of the respective state's regulatory Commission. The Commissions require that water and wastewater rates for each regulated district be independently determined based on the cost of service, except in Washington, which has a statewide tariff. The Commissions are expected to authorize rates sufficient to recover normal operating expenses and allow the utility to earn a fair and reasonable return on invested capital.

We distribute and treat water and treat wastewater in accordance with accepted water utility methods. Where applicable, we hold franchises and permits in the cities and communities where we operate. The franchises and permits allow us to operate and maintain facilities in public streets and right-of-ways as necessary.

We operate the City of Hawthorne and the City of Commerce water systems under lease agreements. In accordance with the lease agreements, we receive all revenues from operating the systems and are responsible for paying the operating costs. The City of Hawthorne and the City of Commerce lease revenues are governed through their respective city councils and are considered non-regulated because they are outside of the CPUC's jurisdiction. We report revenue and expenses for the City of Hawthorne and City of Commerce leases in operating revenue and operating expenses because we are entitled to retain all customer billings and are responsible for all operating expenses. These leases are considered "nontariffed products and services" (NTPS) by the CPUC and require a 10% revenue sharing with regulated customers.

In October of 2011, an agreement was negotiated with the City of Hawthorne to lease and operate its water system. The system, which is located near the Hermosa Redondo district, serves about half of Hawthorne's population. The capital lease agreement required an up-front \$8.1 million lease deposit to the city that is being amortized over the lease term. Additionally, annual lease payments will be adjusted based on changes in rates charged to customers. Under the lease, we are responsible for all aspects of system operation and capital improvements, although title to the system and system improvements reside with the city. Capital improvements are recorded as depreciable plant and equipment and depreciated per the asset lives set forth in the agreement. In exchange, we receive all revenue from the water system, which was \$9.5 million, \$10.1 million and \$10.0 million in 2019, 2018, and 2017, respectively. At the end of the lease, the city is required to reimburse us for the unamortized value of capital improvements made during the term of the lease. The City of Hawthorne capital lease is a 15-year lease and expires in 2026.

In April of 2018, a renewal agreement was negotiated with the City of Commerce for us to continue to lease and to operate its water system for 15 years. Under the agreement, the operating lease requires us to pay \$0.8 million per year in monthly installments. We have operated the City of Commerce water system since 1985 and are responsible for all operations, maintenance, water quality assurance, customer service programs, and financing capital improvements to provide a reliable supply of water that meets federal and state standards to customers served by the City of Commerce system. The City of Commerce will retain title to the system and system improvements and remain responsible for setting its customers' water rates. We bear the risks of operation and collection of amounts billed to customers. In exchange, we receive all revenue from the water system, which was \$2.9 million, \$3.0 million, and \$3.4 million in 2019, 2018, and 2017, respectively. The agreement allows us to request a rate change annually in order to recover costs.

Non-Regulated Activities

Fees for non-regulated activities are based on contracts negotiated between the parties. Under our non-regulated contract arrangements, we operate municipally owned water systems, privately owned water and recycled water distribution systems, but are not responsible for all operating costs. Non-regulated revenue received from water system operations is generally determined on a fee-per-customer basis.

Non-regulated revenue and expenses consist primarily of the operation of water systems that are owned by other entities under lease agreements, leasing of communication antenna sites on our properties, billing of optional third-party insurance programs to our residential customers, and unrealized gains or losses on benefit plan investments.

Effective June 30, 2011, the CPUC adopted new rules related to the provision of non-regulated services using utility assets and employees. As a result, nearly all California non-regulated activities are now considered NTPS. The prescribed accounting for these NTPS is incremental cost allocation plus revenue sharing with regulated customers. Non-regulated services determined to be "active activities" require a 10% revenue sharing, and "passive activities" require a 30% revenue sharing. The amount of non-regulated revenues subject to revenue sharing is the total billed revenues less any authorized pass-through costs. Some examples of CPUC authorized pass-through costs are purchased water, purchased power, and pump taxes. All of our non-regulated services,

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except for leasing communication antenna sites on our properties, are "active activities" subject to a 10% revenue sharing. Leasing communication antenna sites on our properties are "passive activities" subject to a 30% revenue sharing. Cal Water's annual revenue sharing with regulated customers was \$2.7 million, \$2.6 million, and \$2.2 million in 2019, 2018, and 2017, respectively.

Operating Segment

We operate in one reportable segment, the supply and distribution of water and providing water-related utility services. For information about revenue from external customers, net income and total assets, see "Item 8. Financial Statements and Supplementary Data."

Growth

We intend to continue exploring opportunities to expand our regulated and non-regulated water and wastewater activities, particularly in the western United States. The opportunities could include system acquisitions, lease arrangements similar to the City of Hawthorne and City of Commerce contracts, full service system operation and maintenance agreements, meter reading, billing contracts and other utility-related services.

Geographical Service Areas and Number of Customer Connections at Year-end

Our principal markets are users of water within our service areas. The approximate number of customer connections served in each regulated district, the City of Hawthorne and the City of Commerce, at December 31 is as follows:

(rounded to the nearest hundred)	2019	2018
SAN FRANCISCO BAY AREA/NORTH COAST		
Bay Area Region (serving South San Francisco, Colma, Broadmoor, San Mateo, San Carlos, Lucerne, Duncans Mills, Guerneville, Dillon Beach, Noel Heights and portions of Santa Rosa)	55,900	55,800
Bear Gulch (serving portions of Menlo Park, Atherton, Woodside and Portola Valley)	18,900	18,900
Los Altos (including portions of Cupertino, Los Altos Hills, Mountain View and Sunnyvale)	19,000	19,000
Livermore	18,900	18,800
	112,700	112,500
SACRAMENTO VALLEY		
Chico (including Hamilton City)	30,500	30,100
Oroville	3,600	3,600
Marysville	3,800	3,800
Dixon	3,000	3,000
Willows	2,400	2,400
	43,300	42,900
SALINAS VALLEY		
Monterey Region (including Salinas and King City)	31,500	31,400
	31,500	31,400
SAN JOAQUIN VALLEY		
Bakersfield	72,700	71,900
Stockton	44,400	44,200
Visalia	46,000	45,300
Selma	6,500	6,500
Kern River Valley	4,000	3,900
	173,600	171,800

(rounded to the nearest hundred)

	2019	2018
LOS ANGELES AREA		
East Los Angeles	26,800	26,800
Hermosa Redondo (serving Hermosa Beach, Redondo Beach and a portion of Torrance)	27,100	27,000
Dominguez (Carson and portions of Compton, Harbor City, Long Beach, Los Angeles and Torrance)	34,200	34,200
Los Angeles County Region (including Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates, Rolling Hills, Fremont Valley, Lake Hughes, Lancaster and Leona Valley)	25,700	25,600
Westlake (a portion of Thousand Oaks)	7,100	7,100
Hawthorne and Commerce (leased municipal systems)	7,600	7,600
	<u>128,500</u>	<u>128,300</u>
CALIFORNIA TOTAL	489,600	486,900
HAWAII	5,000	4,800
NEW MEXICO	8,300	8,200
WASHINGTON	17,700	17,600
COMPANY TOTAL	<u>520,600</u>	<u>517,500</u>

Rates and Regulation

The Commissions have plenary powers setting both rates and operating standards. As such, the Commissions' decisions significantly impact the Company's revenues, earnings, and cash flows. The amounts discussed herein are generally annual amounts, unless otherwise stated, and the financial impact to recorded revenue is expected to occur over a 12-month period from the effective date of the decision. In California, water utilities are required to make several different types of filings. Certain filings, such as General Rate Case (GRC) filings, escalation rate increase filings, and offset filings, may result in rate changes that generally remain in place until the next GRC. As explained below, surcharges and surcredits to recover balancing and memorandum accounts as well as GRC interim rate relief are temporary rate changes which have specific time frames for recovery.

The CPUC follows a rate case plan which requires Cal Water to file a GRC for each of its regulated operating districts every three years. In a GRC proceeding the CPUC not only considers the utility's rate setting requests, but may also consider other issues that affect the utility's rates and operations. The CPUC is generally required to issue its GRC decision prior to the first day of the test year or authorize interim rates. In accordance with the rate case plan, Cal Water filed its most recent GRC application in July of 2018 requesting rate changes effective January 1, 2020. As discussed in greater detail below, Cal Water's 2018 GRC decision has been delayed and Cal Water has been granted interim rate relief beginning January 1, 2020.

Between GRC filings, Cal Water may file escalation rate increases, which allow Cal Water to recover cost increases, primarily from inflation and incremental investments, during the second and third years of the rate case cycle. However, escalation rate increases are district specific and subject to an earnings test. The CPUC may reduce a district's escalation rate increase if, in the most recent 13-month period, the earnings test reflects earnings in excess of what was authorized for that district.

In addition, California water utilities are entitled to make offset requests via advice letter. Offsets may be requested to adjust revenues for construction projects authorized in GRCs when those capital projects go into service (these filings are referred to as "rate base offsets"), or for rate changes charged to Cal Water for purchased water, purchased power, and pump taxes (which are referred to as "expense offsets"). Rate changes approved in offset requests remain in effect until the next GRC is approved.

In pursuit of the State of California's water conservation goals, the CPUC decoupled Cal Water's revenue requirement from customer consumption levels in 2008 by authorizing a Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) for each district. The WRAM and MCBA ensure that Cal Water recovers revenues authorized by the CPUC regardless of customer consumption. This has removed the historical disincentive against promoting lower water usage among customers. Through an annual advice letter filing, Cal Water recovers any under-collected metered revenue amounts authorized, or refunds over-collected quantity revenues, via surcharges and surcredits. The advice letters are filed between February and April of each year and address the net WRAM and MCBA balances recorded for the previous calendar year. The majority of WRAM and MCBA balances are collected or refunded through surcharges/surcredits over 12 and 18 months. The WRAM and MCBA amounts are cumulative, so if they are not amortized in a given calendar year, the balance is

carried forward and included with the following year balance. Cal Water has had a Sales Reconciliation Mechanism (SRM) in place for 2018 and 2019 (the second and third years of its 2015 GRC) that had allowed the company to adjust its adopted sales forecast if actual sales vary from adopted sales by more than 5.0% in the prior year. The SRM moderates the growth of the net WRAM and MCBA balances until the next GRC.

Regulatory Activity - California

2015 GRC Filing

On December 15, 2016, the CPUC voted to approve Cal Water's 2015 GRC settlement agreement. The approved decision, which was proposed by the presiding Administrative Law Judge in November of 2016, authorized Cal Water to increase gross revenue by approximately \$45.0 million starting on January 1, 2017, up to \$17.2 million in 2018, up to \$16.3 million in 2019, and up to \$30.0 million upon completion and approval of the Company's advice letter projects. The 2018 and 2019 revenue increases were subject to the CPUC's earning test protocol.

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

2018 GRC Filing

On July 2, 2018, Cal Water filed a GRC requesting new water infrastructure investments of \$828.5 million in accordance with the rate case plan for all of its regulated operating districts for the years 2019, 2020, and 2021. The CPUC will evaluate the new water infrastructure improvement investments along with operating budgets to establish water rates that reflect the actual cost of service. The required filing began an approximately 18-month review process, with any changes in customer rates scheduled to become effective on January 1, 2020.

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 following issues are being litigated and were not included in the settlement: continuation of the WRAM and SRM, balancing accounts for pension and health care expenses, depreciation rates, working capital, allowance for funds used during construction (AFUDC), and capital projects related to advanced metering. We can give no assurance that these litigated issues will be decided in our favor. 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 had been expected in late 2019, with new rates going into effect on January 1, 2020. If the settlement is not approved or is approved on terms less favorable to us, or the litigated issues described above are not decided in our favor, this could have a material adverse impact on our revenue, operating results and earnings per share. Even if the settlement is approved on its terms, but the case is materially delayed, it could have a material adverse impact on our revenue, operating results, and earnings per share on an interim basis but would be reversed at the time of a final decision through recognition of interim rate recovery.

The assigned Administrative Law Judge granted Cal Water's request that final approved rates be treated as effective on January 1, 2020 in the event a delay in the final decision were to preclude implementation of new rates on January 1, 2020. On December 19, 2019, the CPUC extended its statutory deadline to complete the proceeding by six months, to July 1, 2020. On December 31, 2019, Cal Water requested a memorandum account that was approved by the CPUC to record the difference between the current rates that would continue to be billed starting January 1, 2020 (considered to be interim rates), and the rates that will eventually be approved in the case (final rates). After a GRC decision is adopted and final rates are implemented, the balance in the memorandum account will be reviewed, and customer bills will be adjusted to account for the difference between interim rates and final rates back to January 1, 2020. If the litigated issues described above are not resolved during the first quarter of 2020, then the delay in the resolution could significantly impact operating results for the first quarter of 2020.

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 first rate increase became effective on January 1, 2020.

2017 Cost of Capital Application

In April of 2017, Cal Water, along with three other water utilities, filed an application to adopt a new cost of capital and capital structure for 2018. 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.

2020 Cost of Capital Application

By order of the CPUC in its rate case plan for water utilities, Cal Water and three other large water companies are required to request a review of their cost of capital for 2021 through 2023 by May 1, 2020. On January 22, 2020, Cal Water and the three other scheduled companies requested that the CPUC allow a one-year extension to file their Cost of Capital applications by May 1, 2021, rather than May 1, 2020. As part of the request, the companies proposed that there be no changes to their respective costs of capital during the one-year extension. This condition mirrors the condition included in the CPUC's previous approvals of the water companies' requests for cost of capital extensions. The companies indicated that postponing the filing one year will alleviate administrative processing costs and provide relief for both CPUC and company resources already strained by numerous CPUC proceedings. As of February 27, 2020, there has been no response or order from the CPUC in response to the request.

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 memorandum 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 2018 and 2019 for those districts that passed the earnings test. In November of 2018, Cal Water requested escalation rate increases for 2019 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.

Expense Offset Requests

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 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.

In December of 2019, Cal Water submitted advice letters to request offsets for increases in purchased water costs in six of its regulated districts totaling \$2.5 million. The new rates became effective on February 1, 2020.

Rate Base Offset Requests

For construction projects authorized in GRCs as advice letter projects, Cal Water is allowed to request rate base offsets to increase revenues after the project goes into service. In November of 2018, Cal Water submitted advice letters to recover \$0.2 million of annual revenue increases 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 a rate base offset in one of its regulated districts. The new rates became effective on November 1, 2019.

In the fourth quarter of 2019, Cal Water submitted advice letters to recover \$2.5 million of annual revenue increases for rate base offsets in all of its regulated districts. The new rates became effective on February 1, 2020.

WRAM/MCBA Filings

In April of 2019, Cal Water submitted an advice letter to true up the revenue under-collections for 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 on April 15, 2019. These surcharges/surcredits are in addition to surcharges/surcredits authorized in prior years which have not yet expired.

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, climate changes including warmer summer temperatures, 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 CPUC 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 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 CPUC's rulemaking is divided into two phases. In Phase 1, the CPUC examined and adopted PSPS guidelines, focusing primarily on notification, communication and outreach. In Phase 2, the CPUC 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 CPUC 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 receives 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, tsunami, 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 requires 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 where a generator was not already installed, Cal Water leased generators for the most critical facilities to prepare for the 2019 wildfire season, in anticipation of installing more permanent facilities in the long term. There was also 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 requested a memorandum account from the CPUC to track the incremental costs associated with the preparation and installation of facilities to address public safety needs in the event of power losses. For 2019, the PSPS MA incremental costs were \$1.6 million of which \$0.1 million was spent on capital.

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 CPUC 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 (TAFB)

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 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. 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. 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. On January 17, 2019, Cal Water fulfilled the condition with the submission of a contract amendment that was approved by the CPUC.

On January 18, 2019, the Public Advocates Office filed an application for rehearing of the decision approving Cal Water's application, and a motion to stay the decision pending resolution of the rehearing application. Cal Water submitted responses opposing both filings. The CPUC has not ruled on either the application for rehearing or the motion to stay the decision.

In the meantime, 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 2020 with the CPUC's resolution of the 2018 GRC.

1.2.3 Trichloropropane (TCP) Memorandum Account

Established in December 2009, the TCP memorandum account tracks the costs incurred and proceeds received and applied with respect to litigation against manufacturers and distributors referred to as potentially responsible parties (PRPs) that manufactured and distributed products that contained TCP in California. Cal Water incurred incremental internal and external costs to support its litigation effort. The TCP memorandum account also tracks litigation awards and settlement proceeds. Finally, the TCP memorandum account will track the application of funds received towards remediation costs, including TCP water treatment expenses and the costs of investments in replacement and treatment property.

On December 20, 2017, Cal Water entered into an \$85.0 million settlement agreement and release of claims with the PRPs, in *California Water Service Company and City of Bakersfield v. The Dow Chemical Company, et al.*, Civil Case No. CIV-470999 (TCP Action). The TCP Action seeks damages and other relief related to the PRPs' alleged contamination of drinking water supply and water wells with the chemical TCP.

The proceeds from the settlement, after payment of the legal fees, was \$56.0 million and will be used to reimburse a portion of the capital costs associated with Cal Water's remediation efforts related to such alleged TCP contamination. As of December 31, 2019, Cal Water has used \$47.6 million of the proceeds on remediation efforts related to the alleged TCP contamination. Under the terms of the Agreement, the PRPs are released from all claims regarding 47 of the 57 total claimed

wells, and Cal Water agrees to file a dismissal with prejudice of the TCP Action. The PRPs are also released from future claims regarding TCP contamination of any other wells, unless and until Cal Water has installed granular activated carbon filtration systems or other then-approved State treatment technology for TCP on, or replaced, 36 wells due to TCP contamination.

Lead Service Line Memorandum Account (LSL MA)

On September 27, 2016, the Governor signed Senate Bill No. 1398 (SB 1398) which added Section 116885 to the Health and Safety Code. The new section stipulates that water systems compile an inventory of known lead service lines used in their distribution systems and identify areas that may have lead service lines used in its distribution system by July 1, 2018. After completing the inventory, the bill also requires water systems provide a timeline for replacement of those known lead service lines to the State Water Resources Control Board (SWRCB). For those that may have lead service lines, the bill requires water systems to either determine the existence or absence thereof by July 1, 2020, and provide that information to the SWRCB or provide a replacement timeline for those service lines whose lead content cannot be determined. Approval of the timeline rests with the SWRCB. Cal Water met the July 1, 2018 reporting deadline where it described 52% of its service lines were identified as not containing lead and the remaining 48% unknown. In order to meet the July 1, 2020 deadline, Cal Water needs to determine if the remaining 48% of service lines contain lead. If the absence of lead cannot be determined, plans must be made to replace the line pursuant to the requirements in SB 1398. A significant amount of field research is needed to meet the 2020 reporting deadline. To that end, in December of 2018, Cal Water submitted an advice letter that established the LSL MA, which gives Cal Water the opportunity to recover costs associated with this effort. Granted by the CPUC in January of 2019, the LSL MA will track all incremental expenses associated with studying and potentially replacing lead service lines for the benefit of Cal Water's customers. As of December 31, 2019, Cal Water has tracked \$0.5 million of expenses for this memorandum account.

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 in 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 of 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.

Kapalua Water Company, LTD and Kapalua Waste Treatment Company, LTD. (Hawaii Water)

In December of 2019, Hawaii Water and Maui Land and Pineapple Company, Inc. entered into an asset purchase agreement to acquire water and wastewater assets. The Kapalua service area is on the Island of Maui. The transaction is subject to certain conditions including due diligence and approval by the Hawaii Public Utilities Commission.

Rainier View Water Company (Washington Water)

On November 6, 2019, Washington Water entered into an agreement with Rainier View Water Company to acquire its water system assets and to provide water utility service to its 18,000 service connections, subject to certain closing conditions including completion of diligence and Washington Utilities and Transportation Commission (WUTC) approval. On February 6, 2020, the companies jointly filed a change of control application with the WUTC.

Rainier View Water Company owns and operates 27 water systems that serve about 35,000 people in parts of Graham, Spanaway, Puyallup, Gig Harbor, and other nearby areas. Washington Water plans to retain Rainier View Water Company's current employees and continue to provide its customers with a reliable supply of safe, high-quality water.

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 6.4 billion gallons or 13.5% 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 28.1 billion gallons or 59.2% of our total annual water supply pumped from wells. Our annual groundwater extraction from unmanaged groundwater basins approximates 12.9 billion gallons or 27.3% of our total annual water supply pumped from wells. Most of the managed groundwater basins we extract water from have groundwater recharge facilities. We are required to pay well pump taxes to financially support these groundwater recharge facilities. Our well pump taxes for 2019, 2018, and 2017 were \$11.5 million, \$14.7 million, and \$13.9 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 after the act's provisions are fully implemented, substantially all the Company's California groundwater will be produced from sustainably 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 December 31, 2019, the State of California snowpack water content during the 2019-2020 water year is 81% of long-term averages (per the California Department of Water Resources, Northern Sierra Precipitation Accumulation report). The northern Sierra region is the most important for the state's urban water supplies. The central and southern portions of the Sierras have recorded 94% and 109%, 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 2020 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.

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The following table shows the estimated quantity of water purchased and the percentage of purchased water to total water production in each California operating district that purchased water in 2019. Other than noted below, all other districts receive 100% of their water supply from wells.

<u>District</u>	Water Purchased (MG)	Percentage of Total Water Production	Source of Purchased Supply
SAN FRANCISCO BAY AREA/NORTH COAST			
Bay Area Region*	6,896	99%	San Francisco Public Utilities Commission and Yolo County Flood Control & Water Conservation District
Bear Gulch	3,562	93%	San Francisco Public Utilities Commission
Los Altos	3,135	80%	Santa Clara Valley Water District
Livermore	2,689	89%	Alameda County Flood Control and Water Conservation District, Zone 7
SACRAMENTO VALLEY			
Oroville	710	94%	Pacific Gas and Electric Co. and County of Butte
SAN JOAQUIN VALLEY			
Bakersfield	10,539	54%	Kern County Water Agency and City of Bakersfield
Stockton	7,321	96%	Stockton East Water District
LOS ANGELES AREA			
East Los Angeles	1,495	33%	Central Basin Municipal Water District
Dominguez	9,411	84%	West Basin Municipal Water District and City of Torrance
City of Commerce	103	16%	Central Basin Municipal Water District
City of Hawthorne	1,031	80%	West Basin Municipal Water District
Hermosa Redondo	3,477	100%	West Basin Municipal Water District
Los Angeles County Region**	5,493	97%	West Basin Municipal Water District and Antelope Valley-East Kern Water Agency
Westlake	2,243	100%	Calleguas Municipal Water District and Triunfo Water and Sanitation District
Kern River Valley	50	21%	City of Bakersfield

MG = million gallons

* Bay Area Region includes Bayshore and Redwood Valley

** Los Angeles County Region includes Palos Verdes and Antelope Valley

The Bear Gulch district obtains a portion of its water supply from surface runoff from the local watershed. The Oroville district in the Sacramento Valley, the Bakersfield district in the San Joaquin Valley, and the Kern River Valley district in the Los Angeles Area purchase water from a surface supply. Surface sources are processed through our water treatment plants before being delivered to the distribution system. The Bakersfield district also purchases treated water as a component of its water supply.

The Chico, Marysville, Dixon, and Willows districts in the Sacramento Valley, the Monterey Region district in the Salinas Valley, the Selma and Visalia districts in the San Joaquin Valley, and the TAFB in Solano County obtain their entire supply from wells.

Purchases for the Los Altos, Livermore, Oroville, Redwood Valley, Stockton, and Bakersfield districts are pursuant to long-term contracts expiring on various dates after 2019. The water supplies purchased for the Dominguez, East Los Angeles, Hermosa Redondo, Palos Verdes, and Westlake districts as well as the Hawthorne and Commerce systems are provided by public agencies pursuant to a statutory obligation of continued non-preferential service to purveyors within the agencies' boundaries. Purchases for the Bayshore and Bear Gulch districts are in accordance with long-term contracts with the San Francisco Public Utilities Commission (SFPUC) until June 30, 2034.

Management anticipates water supply contracts will be renewed as they expire though the price of wholesale water purchases is anticipated to increase in the future.

Shown below are wholesaler price rates and increases that became effective in 2019 and estimated wholesaler price rates and percent changes for 2020. In 2019, several districts experienced purchased water rate increases, resulting in the filing of several purchased water offsets.

District	Effective Month	2019		Effective Month	2020	
		Unit Cost	Percent Change		Unit Cost	Percent Change
Antelope	January	\$602.00 /af	7.5 %	January	\$648.00 /af	7.6%
Bakersfield(1)	July	\$173.00 /af	2.4 %	July	\$173.00 /af	—
Bear Gulch	July	\$4.10 /ccf	—	July	\$4.10 /ccf	—
Commerce(2)	July	\$1,240.00 /af	7.8 %	January	\$1,268.00 /af	2.3%
Dominguez(2)	July	\$1,385.00 /af	2.3 %	January	\$1,405.00 /af	1.4%
East Los Angeles(2)	July	\$1,240.00 /af	7.8 %	January	\$1,268.00 /af	2.3%
Hawthorne(2)	July	\$1,385.00 /af	2.3 %	January	\$1,405.00 /af	1.4%
Hermosa Redondo(2)	July	\$1,385.00 /af	2.3 %	January	\$1,405.00 /af	1.4%
Livermore	January	\$2.01 /ccf	(1.5)%	January	\$2.10 /ccf	4.5%
Los Altos	July	\$1,474.00 /af	6.1 %	July	\$1,474.00 /af	—
Oroville(2)	April	\$181,547.04 /yr	1.5 %	April	\$181,547.04 /yr	—
Palos Verdes(2)	July	\$1,385.00 /af	2.3 %	January	\$1,405.00 /af	1.4%
Mid-Peninsula	July	\$4.10 /ccf	—	July	\$4.10 /ccf	—
Redwood Valley	April	\$65.94 /af	—	April	\$65.94 /af	—
South San Francisco	July	\$4.10 /ccf	—	July	\$4.10 /ccf	—
Stockton	April	\$1,040,943.22 /mo	(0.7)%	April	\$1,040,943.22 /mo	—
Westlake	January	\$1,423.00 /af	3.5 %	January	\$1,472.00 /af	3.4%

af = acre foot;

ccf = hundred cubic feet;

yr = fixed annual cost;

mo = fixed monthly cost

- (1) untreated water
- (2) wholesaler price changes occur every six months

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

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Water Supply" for more information on adequacy of supplies.

Seasonal Fluctuations

In California, our customers' consumption pattern of water varies with the weather, in terms of rainfall and temperature. In the WRAM and MCBA design, the CPUC considers the historical pattern in determining the adopted sales and production costs. With a majority of our sales being subject to the WRAM and production costs being covered by the MCBA, fluctuations in financial results have been minimized. However, cash flows from operations and short-term borrowings on our credit facilities can be significantly impacted by seasonal fluctuations including recovery of the WRAM and MCBA.

Our water business is seasonal in nature. Weather conditions can have a material effect on customer usage. Customer demand for water generally is lower during the cooler and rainy winter months. Demand increases in the spring when warmer weather returns and the rains end, and customers use more water for outdoor purposes such as landscape irrigation. Warm temperatures during the generally dry summer months result in increased demand. Water usage declines during the late fall as temperatures

decrease and the rainy season begins. During years in which precipitation is especially heavy or extends beyond the spring into the early summer, customer demand can decrease from historic normal levels, generally due to reduced outdoor water usage. Likewise, an early start to the rainy season during the fall can cause a decline in customer usage. As a result, seasonality of water usage has a significant impact on our cash flows from operations and borrowing on our short-term facilities.

Utility Plant Construction

We have continually extended, enlarged, and replaced our facilities as required to meet increasing demands and to maintain the water systems. We obtain construction financing using funds from operations, short-term bank borrowings, long-term financing, advances for construction and contributions in aid of construction that are funded by developers. Advances for construction are cash deposits from developers for construction of water facilities or water facilities deeded from developers. These advances are generally refundable without interest over a period of 40 years in equal annual payment amounts and developer installed facilities are exempt from corporate income taxes. Contributions in aid of construction consist of nonrefundable cash deposits or facilities transferred from developers, primarily for fire protection and relocation projects. We cannot control the amounts received from developers. This amount fluctuates from year-to-year as the level of construction activity carried on by developers varies. This activity is impacted by the demand for housing, commercial development, and general business conditions, including interest rates.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional information.

Energy Reliability

We continue to use power efficiently to minimize the power expenses passed on to our customers, and maintain backup power systems to continue water service to our customers if the power companies' supplies are interrupted. Many of our well sites are equipped with emergency electric generators designed to produce electricity to keep the wells operating during power outages. Storage tanks also provide customers with water during blackout periods.

During 2019, we leased additional emergency generators to respond to potential PSPSs, a new electric utility operating paradigm approved by the CPUC.

Impact of Climate Change Legislation and Regulation

Our operations depend on power provided by other public utilities and, in emergencies, power generated by our portable and fixed generators. If future legislation limits emissions from the power generation process, our cost of power may increase. Any increase in the cost of power will be passed along to our California customers through the MCBA or included in our cost of service paid by our customers as requested in our GRC filings.

We maintain a fleet of vehicles to provide service to our customers, including a number of heavy duty diesel vehicles that were retrofitted to meet California emission standards. If future legislation further impacts the cost to operate the fleet or the fleet acquisition cost in order to meet certain emission standards, it will increase our cost of service and our rate base. Any increase in fleet operating costs associated with meeting emission standards will be included in our cost of service paid by our customers as requested in our GRC filings. While recovery of these costs is not guaranteed, we would expect recovery in the regulatory process.

Under the California Environmental Quality Act (CEQA), all capital projects of a certain type (primarily wells, tanks, major pipelines and treatment facilities) require mitigation of greenhouse gas emissions. The cost to prepare the CEQA documentation and permit will be included in our capital cost and added to our rate base, which will be requested to be paid for by our customers. Any increase in the operating cost of the facilities will also be included in our cost of service paid by our customers as requested in our GRC filings. While recovery of these costs is not guaranteed, we would expect recovery in the regulatory process.

Cap and trade regulations were implemented in 2012 with the goal of reducing emissions to 1990 levels by the year 2020. These regulations have not impacted water utilities at this time. In the future, if we are required to comply with these regulations, any increase in operating costs associated with meeting these standards will be included in our cost of service paid by our customers as requested in our GRC filings. While recovery of these costs is not guaranteed, we would expect recovery in the regulatory process.

Security at Company Facilities

Due to terrorism and other risks, we have heightened security at our facilities and have taken added precautions to protect our employees and the water delivered to customers. In 2002, federal legislation was enacted that resulted in new regulations concerning security of water facilities, including submitting vulnerability assessment studies to the federal government. We have complied with regulations issued by the U.S. Environmental Protection Agency (EPA) pursuant to federal legislation concerning vulnerability assessments and have made filings to the EPA as required. In addition, communication plans have been developed as a component of our procedures. While we do not make public comments on our security programs, we have been in contact with federal, state, and local law enforcement agencies to coordinate and improve our water delivery systems' security.

On October 23, 2018, America's Water Infrastructure Act (AWIA) became law. We must now conduct additional risk and resilience assessments and develop emergency response plans for each of our water systems. These assessments and plans include natural hazards as well as malevolent acts. The first such assessments are due in 2020. They will be reviewed and resubmitted every five years.

While we do not make public comments on our security programs, we have been in contact with federal, state, and local law enforcement agencies to coordinate and improve our water delivery systems' security

Quality of Water Supply

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

In recent years, federal and state water quality regulations have resulted in increased water sampling requirements. The SDWA continues to be used to monitor and regulate additional potential contaminants to address public health concerns. The State of California has continued to adopt new water quality regulations which may be in addition to those adopted by the EPA. We monitor water quality standard changes and upgrade our treatment capabilities to maintain compliance with the various regulations.

Competition and Condemnation

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

State law provides that whenever a public agency constructs facilities to extend a utility system into the service area of a privately owned public utility, such an act constitutes the taking of property and requires reimbursement to the utility for its loss. State statutes allow municipalities, water districts and other public agencies to own and operate water systems. These agencies are empowered to condemn properties already operated by privately owned public utilities. The agencies are also authorized to issue bonds, including revenue bonds, for the purpose of acquiring or constructing water systems. However, if a public agency were to acquire utility property by eminent domain action, the utility would be entitled to just compensation for its loss. In Washington, annexation was approved in February 2008 for property served by us on Orcas Island; however, we continue to serve the customers in the annexed area and do not expect the annexation to impact our operations. To management's knowledge, other than the Orcas Island property, no municipality, water district, or other public agency is contemplating or has any action pending to acquire or condemn any of our systems.

Environmental Matters

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

For a description of the material effects that compliance with environmental regulations may have on us, see Item 1A. "Risk Factors—Risks Related to Our Regulatory Environment." We expect environmental regulation to increase, resulting in higher operating costs in the future, and there can be no assurance that the Commissions would approve rate increases to enable us to recover these additional compliance costs.

Employees

At December 31, 2019, we had 1,207 employees, including 53 at Washington Water, 46 at Hawaii Water, and 15 at New Mexico Water. In California, most non-supervisory employees are represented by the Utility Workers Union of America, AFL-CIO, except certain engineering and laboratory employees who are represented by the International Federation of Professional and Technical Engineers, AFL-CIO.

At December 31, 2019, we had 768 union employees. In January 2015, the Company negotiated a six-year contract. Wage increases for both unions in 2015, 2016, and 2017 was 3.25%, 2.75%, and 2.75%, respectively. For 2018, 2019, and 2020, union wage changes were tied to the changes in the Consumer Price Index (CPI) for Los Angeles, Riverside, and Orange County. In the event an annual wage increase is determined to be greater than 3.25% or less than 2.0%, either party may request to re-open negotiations for wages only. Such notice must be served on the other party no later than 60 days after the publication of such CPI data. In 2018, the applicable CPI was 3.1%. Union wages were increased 3.1% for all union employees. The applicable CPI published in October of 2018 was 3.9%. The union requested to re-open wage negotiations due to increases in the 2018 CPI index above 3.25%. The Company and both unions negotiated an agreement for the 2019 and 2020 wage increases whereby the base pay for all employees was increased by 3.4% (the CPI for the Western US) effective January 1, 2019. In addition, the agreement established three regions for pay purposes (Region 1, Region 2, and Region 3). Employees in Region 2 will receive the 3.4% increase in base pay, plus a regional differential of 0.5% added to their pay (based on the CPI for the Los Angeles area) Employees in Region 3 will receive the 3.4% increase in base pay, plus a 0.9% regional differential (based on the CPI for the San Francisco area). For 2020, we will follow this same methodology to determine the base pay increase for all union positions (i.e. Region 1), plus the applicable regional differential for Region 2 and Region 3. The current agreement with the unions is effective through 2020. Management believes that it maintains good relationships with the unions.

Employees at Hawaii Water, Washington Water and New Mexico Water are not represented by unions.

Information About Our Executive Officers

<u>Name</u>	<u>Positions and Offices with California Water Service Group</u>	<u>Age</u>
Martin A. Kropelnicki (1)	President and Chief Executive Officer since September 1, 2013. Formerly, President and Chief Operating Officer (2012-2013), Chief Financial Officer and Treasurer (2006-2012), served as Chief Financial Officer of Power Light Corporation (2005-2006), Chief Financial Officer and Executive Vice President of Corporate Services of Hall Kinion and Associates (1997-2004), Deloitte & Touche Consulting (1996-1997), held various positions with Pacific Gas & Electric (1989-1996).	53
Thomas F. Smegal III (2)	Vice President, Chief Financial Officer and Treasurer since October 1, 2012. Formerly, Vice President, Regulatory Matters and Corporate Relations (2008-2012), Manager of Rates (2002-2008), Regulatory Analyst (1997-2002), served as Utilities Engineer at the California Public Utilities Commission (1990-1997).	52
Paul G. Townsley (2)	Vice President of Corporate Development and Chief Regulatory Matters Officer effective January 1, 2019. Formerly Vice President of Rates and Regulatory Matters (2013-2018), Divisional Vice President, Operations and Engineering for EPCOR Water USA (2012-2013), served as President of American Water Works Company subsidiaries in Arizona, New Mexico, and Hawaii (2007-2012), served as American Water Works Company's President, Western Region (2002-2007), held various other positions with Citizens Utilities Company (1982-2002).	62
Robert J. Kuta (2)	Vice President of Engineering and Chief Water Quality and Environmental Compliance Officer effective January 1, 2019. Formerly Vice President of Engineering (2015-2018), Senior Vice President of Operations Management Services, Water, Environmental and Nuclear markets for CH2M Hill (2006 to 2015), served as Western Region Vice President of Service Delivery and President of Arizona American Water Company (2001 to 2005), and held various management positions at Citizens Water Resource Company, Chaparral City Water Company, and Spring Creek Utilities (1993 to 2001).	55

<u>Name</u>	<u>Positions and Offices with California Water Service Group</u>	<u>Age</u>
Michael B. Luu (2)	Vice President of Customer Service and Chief Information Officer since January 1, 2017. Formerly Vice President of Customer Service and Information Technology (2013-2016), Acting California Water Service Company District Manager, Los Altos (2012-2013), Director of Information Technology (2008-2012), CIS Development Manager (2005-2008), held various other positions with California Water Service Company since 1999.	40
Ronald D. Webb (2)	Vice President of Human Resources since August 11, 2014. Formerly Managing Director, Human Resources Partner for United Airlines (2006-2014), served as Vice President of Human Resources for Black & Decker Corporation (1995-2005), Human Resource Manager for General Electric Company (1990-1994), and held various labor relations positions for National Steel and Shipbuilding Company (1982-1989).	63
Lynne P. McGhee (2)	Vice President and General Counsel since January 1, 2015. Formerly Corporate Secretary (2007-2014), Associate Corporate Counsel (2003-2014), and served as a Commissioner legal advisor and staff counsel at the California Public Utilities Commission (1998-2003).	55
David B. Healey (2)	Vice President, Corporate Controller and Assistant Treasurer since January 1, 2015. Formerly Corporate Controller and Assistant Treasurer (2012-2014), Director of Financial Reporting (2009-2012), served as Subsidiary Controller for SunPower Corporation (2005-2009), Corporate Controller for Hall, Kinion & Associates, Inc. (1997-2005), held various other positions with Pacific Gas & Electric Company (1985-1997).	63
Shannon C. Dean (2)	Vice President of Corporate Communications & Community Affairs since January 1, 2015. Formerly Director of Corporate Communications (2000-2014), held various corporate communications, government and community relations for Dominguez Water Company (1991-1999).	52
Gerald A. Simon (2)	Vice President, Chief Safety, Security, and Emergency Preparedness Officer effective January 1, 2019. Formerly Chief Safety and Emergency Preparedness Officer (2016-2018), Director of Safety and Emergency Services (2015), Emergency Services Manager (2014), Emergency Services Coordinator (2013), served as Fire Chief for Oakland, CA (2008-2011) and (1999-2004), Fire Chief for Fort Lauderdale, FL (2006-2007), Fire Chief for Union City, CA (2005-2006), Fire Chief for Santa Clara, CA (1993-1999) held various other positions at Santa Clara Fire Department (1976-1999), and Fire Services Consultant (1985-2015).	65
Michelle R. Mortensen (2)	Corporate Secretary since January 1, 2015. Formerly Assistant Corporate Secretary (2014), Treasury Manager (2012-2013), Assistant to the Chief Financial Officer (2011), Regulatory Accounting Manager (2008-2010), held various accounting positions at Piller Data Systems (2006-2007), Hitachi Global Storage (2005), Abbot Laboratories (1998-2004), and Symantec (1998-2001).	45
Elissa Y. Ouyang (2)	Chief Procurement and Lead Continuous Improvement Officer since March 1, 2016. Formerly, Interim Procurement Director (2013-2016), Acting District Manager - Los Altos (2013), Interim Vice President of Information Technology (2012-2013), Director of Information Technology - Architecture and Security (2008-2012), Business Application Manager (2003-2007), Project Lead/Senior Developer (2001-2003), held various business consulting positions at KPMG Consulting/BearingPoint (1998-2001), and RR Donnelley (1996-1998).	51

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

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

Item 1A. Risk Factors.

If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected.

Risks Related to Our Regulatory Environment

Our business is heavily regulated by state and federal regulatory agencies and our financial viability depends upon our ability to recover costs from our customers through rates that must be approved by state public utility commissions.

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

Our revenues and consequently our ability to meet our financial objectives are dependent upon the rates we are authorized to charge our customers by the Commissions and our ability to recover our costs in these rates. Our management uses forecasts, models and estimates in order to set rates that will provide a fair and reasonable return on our invested capital. While our rates must be approved by the Commissions, no assurance can be given that our forecasts, models and estimates will be correct or that the Commissions will agree with our forecasts, models and estimates. If our rates are set too low, our revenues may be insufficient to cover our operating expenses, capital expenditure requirements and desired dividend levels.

We periodically file rate increase applications with the Commissions. The ensuing administrative and hearing process may be lengthy and costly. The decisions of the Commissions are beyond our control and we can provide no assurances that our rate increase requests will be granted by the Commissions. Even if approved, there is no guarantee that approval will be given in a timely manner or at a sufficient level to cover our expenses and provide a reasonable return on our investment. If the rate increase decisions are delayed, our earnings may be adversely affected.

Specifically, the formal settlement agreement filed for our 2018 GRC with the Public Advocates Office of the CPUC is still pending, and the following issues are being litigated and were not included in the settlement: continuation of the WRAM and SRM, balancing accounts for pension and health care expenses, depreciation rates, working capital, AFUDC, and capital projects related to advanced metering. We can give no assurance that these litigated issues will be decided in our favor. Additionally, the CPUC will consider, but is not required to adopt, the settlement agreement. A final decision on the case had been expected in late 2019, with new rates going into effect on January 1, 2020. On December 19, 2019, the CPUC extended its statutory deadline to complete the proceeding by six months, to July 1, 2020. The CPUC will allow recovery of the difference between current rates and final rates adopted in the proceeding back to January 1, 2020. If the settlement is not approved or is approved on terms less favorable to us, or the litigated issues described above are not decided in our favor, this could have a material adverse impact on our revenue, operating results and earnings per share. Even if the settlement is approved on its terms, but the case is materially delayed, it could have a material adverse impact on our revenue, operating results, and earnings per share on an interim basis but would be reversed at the time of a final decision through recognition of interim rate recovery.

Our evaluation of the probability of recovery of regulatory assets is subject to adjustment by regulatory agencies and any such adjustment could adversely affect our results of operations and financial condition.

Regulatory decisions may also impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses and may overturn past decisions used in determining our revenues and expenses. Our management continually evaluates the anticipated recovery of regulatory assets and revenues subject to refund and provides for allowances and/or reserves as deemed necessary. Current accounting procedures allow us to defer certain costs if we believe it is probable that we will be allowed to recover those costs through future rate increases. If the Commissions determined that a portion of our assets were not recoverable in customer rates, we may suffer an asset impairment which would require a write down in such asset's valuation which would be recorded through operations.

If our assessment as to the probability of recovery through the ratemaking process is incorrect, the associated regulatory asset would be adjusted to reflect the change in our assessment or any regulatory disallowances. A change in our evaluation of the probability of recovery of regulatory assets or a regulatory disallowance of all or a portion of our cost could have a material adverse effect on our financial results.

Regulatory agencies may disagree with our valuation and characterization of certain of our assets.

If we determine that assets are no longer used or useful for utility operations, we may remove them from our rate base and subsequently sell those assets with any gain on sales accruing to the stockholders, subject to certain conditions. If the Commissions disagree with our characterization, there is a risk that the Commissions could determine that realized appreciation in property value should be awarded to customers rather than our stockholders.

Changes in laws, rules and policies of regulatory agencies can significantly affect our business.

Regulatory agencies may change their rules and policies for various reasons, including changes in the local political environment. Regulators are elected by popular vote or are appointed by elected officials, and the results of elections may change the long-established rules and policies of an agency dramatically. For example, in 2001 regulation regarding recovery of increases in electrical rates changed in California. For over 20 years prior to 2001, the CPUC allowed recovery of electric rate increases under its operating rules. However, in 2003, the CPUC reinstated its policy to allow utilities to adjust their rates for rate changes by the power companies. The original decision by the CPUC to change its policy, as well as its subsequent decision to reinstate that policy, affected our business.

We rely on policies and regulations promulgated by the various state commissions in order to recover capital expenditures, maintain favorable treatment on gains from the sale of real property, offset certain production and operating costs, recover the cost of debt, maintain an optimal equity structure without over-leveraging, and have financial and operational flexibility to engage in non-regulated operations. If any of the Commissions with jurisdiction over us implements policies and regulations that do not allow us to accomplish some or all of the items listed above, our future operating results may be adversely affected.

In addition, legislatures may repeal, relax or tighten existing laws, or enact new laws that impact the regulatory agencies with jurisdiction over our business or affect our business directly. If changes in existing laws or the implementation of new laws limit our ability to accomplish some of our business objectives, our future operating results may be adversely affected.

We expect environmental health and safety regulation to increase, resulting in higher operating costs in the future.

Our water and wastewater services are governed by various federal and state environmental protection, health and safety laws and regulations. These provisions establish criteria for drinking water and for discharges of water, wastewater and airborne substances. The EPA, state water quality regulators, and other state regulatory authorities promulgate numerous nationally and locally applicable standards, including maximum contaminant levels (MCLs) for drinking water. We believe we are currently in compliance with all of the MCLs promulgated to date. Although we have a rigorous water quality assurance program in place, we cannot guarantee that we will continue to comply with all standards. If we violate any federal or state regulations or laws governing health and safety, we could be subject to substantial fines or otherwise sanctioned.

Environmental health and safety laws are complex and change frequently. They tend to become more stringent over time. As new or stricter standards are introduced, they could increase our operating costs. Although we would likely seek permission to recover these costs through rate increases, we can give no assurance that the Commissions would approve rate increases to enable us to recover these additional compliance costs.

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

New and/or more stringent water quality regulations could increase our operating costs.

We are subject to water quality standards set by federal, state and local authorities that have the power to issue new regulations. Compliance with new regulations that are more stringent than current regulations could increase our operating costs.

In August of 2009, the Office of Environmental Health Hazard Assessment within the California Environmental Protection Agency changed the water quality standard for TCP in our water supply. The new standard requires us to have 0.0007 parts per billion or less of TCP in our California water supply. We have incurred costs associated with the compliance of the new TCP standard and expect to continue to incur costs in the future. In 2018, we received proceeds from a TCP settlement (see note 14 in the Notes to the Consolidated Financial Statements) that has been used to offset some of the compliance costs that we have incurred. Although we would likely seek permission to recover these additional costs through the GRC process, we can give no assurance that the CPUC would approve the recovery of these additional compliance costs.

Perfluorooctane sulfonate (PFOS) and perfluorooctanoic acid (PFOA) are two water contaminants of emerging concern. Although a water quality standard has yet to be set by federal or state regulators, preliminary testing and guidance from Cal EPA

has affected our operations of some wells in California. We expect that a water quality standard will be set in the future and that we will incur costs to comply with the water quality standard. We would likely request a memorandum account to track the incremental compliance costs in the future and we would likely seek permission to recover additional costs of compliance through rate increases; however, we can give no assurance that the CPUC would approve rate increases to enable us to recover these additional compliance costs.

Legislation and regulation designed to mitigate or adapt to climate change may impact our operations.

Future legislation or regulation regarding climate change may restrict our operations or impose new costs on our business. Our operations depend on power provided by other public utilities and, in emergencies, power generated by our portable and fixed generators. If future legislation or regulation limits emissions from the power generation process, our cost of power may increase. Any increase in the cost of power will be passed along to our California customers through the MCBA or included in our cost of service paid by our customers as requested in our GRC filings in California.

Starting January 1, 2010, under the CEQA, all capital projects of a certain type (primarily wells, tanks, major pipelines and treatment facilities) require mitigation of greenhouse gas emissions. The cost to prepare the CEQA documentation and permit will add an estimated ten thousand dollars to such capital projects. This cost will be included in our capital cost and added to our rate base, which will be requested to be paid for by our customers. Any increase in the operating cost of the facilities will also be included in our cost of service paid by our customers as requested in our GRC filings. Although we would likely seek permission to recover these costs through rate increases, we can give no assurance that the CPUC would approve rate increases to enable us to recover these additional compliance costs.

Cap and trade regulations were implemented in California in 2012 with the goal of reducing emissions to 1990 levels by the year 2020. Although we would likely seek permission to recover these costs through rate increases, we can give no assurance that the CPUC would approve rate increases to enable us to recover these additional compliance costs.

We have been and may in the future be party to environmental and product-related lawsuits which could result in us paying damages not covered by insurance.

We have been and may be in the future, party to water contamination lawsuits, which may not be fully covered by insurance.

The number of environmental and product-related lawsuits against other water utilities have increased in frequency in recent years. If we are subject to additional environmental or product-related lawsuits, 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. In addition, if current California law regarding CPUC's preemptive jurisdiction over regulated public utilities for claims about compliance with California Department of Health Services and United States EPA water quality standards changes, our legal exposure may be significantly increased.

Risks Related to Our Business Operations

We may be at risk for litigation under the principle of inverse condemnation for activities in the normal course of business which have a damaging effect on private property.

The California constitution may allow compensation to property owners for a public utility taking or damaging private property, even when damage occurs through no fault of the utility and regardless of whether the damage could be foreseen by the utility. As a result, this doctrine, which is known as inverse condemnation and is routinely invoked in California, imposes strict liability for damages, including legal fees, as a result of the design, construction and maintenance of utility facilities. In addition to claims that our water or wastewater systems damaged property, Cal Water could be sued under inverse condemnation if its facilities or operations damage private property or if it is unable to timely deliver sufficient quantities of water for firefighting because of system capacity limitations or water supply disruptions, including as a result of action taken by an electric utility pursuant to a PSPS program or other loss of power. Although the imposition of liability is premised on the assumption that utilities have the ability to recover these costs from their customers, there is no assurance that the CPUC would allow Cal Water to recover any such damage awards from customers. For example, in December 2017, the CPUC denied recovery of costs that San Diego Gas & Electric Company incurred as a result of inverse condemnation, holding that the inverse condemnation principles of strict liability are not relevant to the CPUC's prudent manager standard. In October 2019 the U.S. Supreme Court denied a writ of certiorari to review this decision.

The effects of natural disasters, attacks by third parties, pandemics, or poor water quality or contamination to our water supply may result in disruption in our services and litigation which could adversely affect our business, operating results and financial condition.

We operate in areas that are prone to earthquakes, fires, mudslides and other natural disasters. A significant seismic event or other natural disaster in California where our operations are concentrated could adversely impact our ability to deliver water

and adversely affect our costs of operations. A major disaster could damage or destroy substantial capital assets. The CPUC has historically allowed utilities to establish a catastrophic event memorandum account as another possible mechanism to recover costs. However, we can give no assurance that the CPUC or any other commission would allow any such cost recovery mechanism in the future.

Our water supplies are subject to contamination, including contamination from the development of naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from man-made sources, such as TCP, sea water incursion and possible third-party attacks, including physical attacks, terrorist attacks, and cyber attacks. If our water supply is contaminated, we may have to interrupt the use of that water supply until we are able to substitute the flow of water from an uncontaminated water source. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. If we are unable to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner, there may be an adverse effect on our revenues, operating results and financial condition. The costs we incur to decontaminate a water source or an underground water system could be significant and may not be recoverable in rates. We could also be held liable for consequences arising out of human exposure to hazardous substances in our water supplies or other environmental damage. For example, private plaintiffs have the right to bring personal injury or other toxic tort claims arising from the presence of hazardous substances in our drinking water supplies. Our insurance policies may not be sufficient to cover the costs of these claims.

We operate a dam. If the dam were to fail for any reason, we would lose a water supply and flooding likely would occur. Whether or not we were responsible for the dam's failure, we could be sued. We can give no assurance that we would be able to successfully defend such a suit.

In light of the threats to the nation's health and security ensuing in the wake of the September 11, 2001 terrorist attacks, we have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply, to protect against third-party attacks, including physical attacks, terrorist attacks and cyber attacks. We have also tightened our security measures regarding the delivery and handling of certain chemicals used in our business. We have and will continue to bear increased costs for security precautions to protect our facilities, operations and supplies. These costs may be significant. Despite these tightened security measures, we may not be in a position to control the outcome of third-party attacks should they occur.

We depend upon our skilled and trained workforce to ensure water delivery. Were a pandemic to occur, we can give no assurance that we would be able to maintain sufficient human resources to ensure uninterrupted service in all of the districts that we serve.

If any of these catastrophic events were to occur, we can give no assurance that our emergency preparedness plans would be adequate and that we would respond effectively, which could result in public or employee harm.

We rely on our information technology ("IT") and a number of complex business systems to assist with the management of our business and customer and supplier relationships, and a disruption of these systems could adversely affect our business.

Our IT systems are an integral part of our business, and a serious disruption of our IT systems could significantly limit our ability to manage and operate our business efficiently, which, in turn, could cause our business and competitive position to suffer and adversely affect our results of operations. We depend on our IT systems to bill customers, process orders, provide customer service, manage construction projects, manage our financial records, track assets, remotely monitor certain of our plants and facilities and manage human resources, inventory and accounts receivable collections. Our IT systems also enable us to purchase products from our suppliers and bill customers on a timely basis, maintain cost-effective operations and provide service to our customers. Some of our mission and business critical IT systems are older, such as our SCADA (Supervisory Control and Data Acquisition) system. Although we do not believe that our IT systems are at a materially greater risk of cyber security incidents than other similar organizations, our IT systems remain vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of customer data due to security breaches, cyber attacks, misappropriation and similar events;
- computer viruses;
- intentional security breaches, hacking, denial of services actions, misappropriation of data and similar events; and
- earthquakes, floods, fires, mudslides and other natural disasters or physical attacks.

These events may result in physical and/or electronic loss of customer or financial data, security breaches, misappropriation and other adverse consequences, including liability or regulatory penalties under data privacy laws and regulations. In addition, the lack of redundancy for certain of our IT systems, including billing systems, could exacerbate the impact of any of these events on us.

In addition, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our business, and we might lack sufficient resources to make the necessary upgrades or replacements of our outdated existing technology to allow us to continue to operate at our current level of efficiency.

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

We depend on an adequate water supply to meet the present and future needs of our customers. Whether we have an adequate supply varies depending upon a variety of factors, many of which are partially or completely beyond our control, including:

- the amount of rainfall;
- the amount of water stored in reservoirs;
- underground water supply from which well water is pumped;
- availability from water wholesalers;
- changes in the amount of water used by our customers;
- water quality and availability of appropriate treatment technology;
- legal limitations on water use such as rationing restrictions during a drought;
- changes in prevailing weather patterns and climate; and
- population growth.

We purchase our water supply from various governmental agencies and others. Water supply availability may be affected by weather conditions, funding and other political and environmental considerations. In addition, our ability to use surface water is subject to regulations regarding water quality and volume limitations. If new regulations are imposed or existing regulations are changed or given new interpretations, the availability of surface water may be materially reduced. A reduction in surface water could result in the need to procure more costly water from other sources, thereby increasing our water production costs and adversely affecting our operating results if not recovered in rates on a timely basis.

We have entered into long-term water supply agreements, which commit us to making certain minimum payments whether or not we purchase any water. Therefore, if demand is insufficient to use our required purchases we would have to pay for water we did not receive.

From time to time, we enter into water supply agreements with third parties and our business is dependent upon such agreements in order to meet regional demand. For example, we have entered into a water supply contract with the SFPUC that expires on June 30, 2034. We can give no assurance that the SFPUC, or any of the other parties from whom we purchase water, will renew our contracts upon expiration, or that we will not be subject to significant price increases under any such renewed contracts.

The parties from whom we purchase water maintain significant infrastructure and systems to deliver water to us. Maintenance of these facilities is beyond our control. If these facilities are not adequately maintained or if these parties otherwise default on their obligations to supply water to us, we may not have adequate water supplies to meet our customers' needs.

If we are unable to access adequate water supplies, we may be unable to satisfy all customer demand, which could result in rationing. Rationing may have an adverse effect on cash flow from operations. We can make no guarantee that we will always have access to an adequate supply of water that will meet all required quality standards. Water shortages may affect us in a variety of ways. For example, shortages could:

- adversely affect our supply mix by causing us to rely on more expensive purchased water;
- adversely affect operating costs;
- increase the risk of contamination to our systems due to our inability to maintain sufficient pressure; and

- increase capital expenditures for building pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of our customers and reservoirs and other facilities to conserve or reclaim water.

We may or may not be able to recover increased operating and construction costs on a timely basis, or at all, for our regulated systems through the ratemaking process. Although we can give no assurance, we may be able to recover certain of these costs from third parties that may be responsible, or potentially responsible, for groundwater contamination.

Our water supplies and other aspects of our operations may be affected by climate change.

There is strong scientific consensus that human activity including carbon and methane emissions is impacting many planetary systems such as the heat-trapping capacity of the atmosphere; ocean temperature, circulation, acidity, and volume; weather patterns including the severity and frequency of severe weather events; ambient temperatures; and planetary ice cover. Because scientific investigations have been focused globally, there is tremendous uncertainty over the timing, extent, and types of impacts global climate change may have on our service areas and in our water supplies. Moreover, studies of tree ring data show long periods of drought conditions have occurred prior to significant human impacts in California and prior to our operation. Finally, in the last fifty years, California has experienced at least three severe multi-year droughts. Thus, we plan for water reliability and water shortages including projected and potential climate change risks in our water supply planning activities. Several anticipated impacts of climate change which could impact our service areas are a greater percentage of state precipitation falling as rain rather than snow, changes in the frequency and volume of precipitation, hotter summer temperatures increasing demand for outdoor irrigation, and sea level rise increasing the likelihood of seawater intrusion into coastal aquifers. We also periodically review the climate change plans of our wholesalers to determine whether alternative supplies may be necessary in the future. However, we can give no assurance that replacement water supplies will be available at a reasonable cost or a cost acceptable to our customers and Commissions.

Natural disasters, climate change, and other factors may change the population in our service areas.

In the event that some outside factor such as a wildfire, flood, changed climate pattern, actual or threatened public health emergency or change in the local economy reduces or eliminates our customer base in a service area, we could face unrecoverable costs. In those circumstances the remaining customers might not be able to pay for the operating costs or capital costs of the water system. The company may not be able to recover capital costs of property which is no longer used and useful in utility service. Although we would likely seek permission to recover these costs through rate increases on remaining customers or in statewide rates, we can give no assurance that the Commissions would approve rate increases to enable us to recover these costs.

Wastewater operations entail significant risks.

Wastewater collection and treatment involve many risks associated with damage to the environment, and we anticipate that wastewater collection and treatment will become an increasing significant part of our business. If collection or treatment systems fail or do not operate properly, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing property damage or injury to aquatic life, or even human life. Liabilities resulting from such damage could materially and adversely affect our results of operations and financial condition.

Demand for our water is subject to various factors and is affected by seasonal fluctuations.

Demand for our water during the warmer, dry months is generally greater than during cooler or rainy months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature and rainfall levels. If temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease. Under the WRAM mechanism, lower water usage in our California operations impacts our cash flows in the year of usage, but results in higher cash flows in the following years.

In addition, governmental restrictions on water usage during drought conditions may result in a decreased demand for our water, even if our water reserves are sufficient to serve our customers during these drought conditions. The Commissions may not allow surcharges to collect lost revenues caused by customers' conservation during a drought. Regardless of whether we may surcharge our customers during a conservation period, they may use less water even after a drought has passed because of conservation patterns developed during the drought. Furthermore, our customers may wish to use recycled water as a substitute for potable water. If rights are granted to others to serve our customers recycled water, there will likely be a decrease in demand for our water.

Finally, changes in prevailing weather patterns due to climate change may affect customer demand. If increased ambient temperatures affect our service areas, water used for irrigation and cooling may increase. If rainfall patterns change, our customers

may change their patterns of water use including the amount of outdoor irrigation and the type of landscape they install. Government agencies may also mandate changes to customer irrigation or landscape patterns in response to changes in weather and climate.

Changes in water supply costs impact our operations.

The cost to obtain water for delivery to our customers varies depending on the sources of supply, wholesale suppliers' prices, the quality of water required to be treated and the quantity of water produced to fulfill customer water demand. Our source of supply varies among our operating districts. Certain districts obtain all of their supply from wells; some districts purchase all of the supply from wholesale suppliers; and other districts obtain the supply from a combination of wells and wholesale suppliers. A small portion of supply comes from surface sources and is processed through Company-owned water treatment plants. On average, slightly more than half of the water we deliver to our customers is pumped from wells or received from a surface supply with the remainder purchased from wholesale suppliers. Water purchased from suppliers usually costs us more than surface supplied or well pumped water. The cost of purchased water for delivery to customers represented 34.5% and 35.2% of our total operating costs in 2019 and 2018, respectively. Water purchased from suppliers will require renewal of our contracts upon expiration and may result in significant price increases under any such renewed contracts.

Wholesale water suppliers may increase their prices for water delivered to us based on factors that affect their operating costs. Purchased water rate increases are beyond our control. In California, effective July 1, 2008, our ability to recover increases in the cost of purchased water changed with the adoption of the MCBA. With this change, actual purchased water costs are compared to authorized purchased water costs, with variances netted against the variances in purchased power, pump tax, and metered revenue, being recorded to revenue. The balance in the MCBA will be collected in the future by billing the net WRAM and MCBA accounts receivable balances over 12, 18, and 18+ month periods, which may have a short-term negative impact on cash flow.

Dependency upon adequate supply of electricity and certain chemicals could adversely affect our results of operations.

Purchased electrical power is required to operate the wells and pumps needed to supply water to our customers. Although there are back-up power generators to operate a number of wells and pumps in emergencies, an extended interruption in power could impact the ability to supply water. In the past, California has been subject to rolling power blackouts due to insufficient power supplies. There is no assurance we will not be subject to power blackouts in the future. Additionally, we require sufficient amounts of certain chemicals in order to treat the water we supply. There are multiple sources for these chemicals but an extended interruption of supply could adversely affect our ability to adequately treat our water.

Purchased power is a significant operating expense. During 2019 and 2018, purchased power expense represented 5.1% and 5.3%, respectively, of our total operating costs. These costs are beyond our control and can change unpredictably and substantially as occurred in California during 2001 when rates paid for electricity increased 48%. As with purchased water, purchased power costs are included in the MCBA. Cash flows between rate filings may be adversely affected until the Commission authorizes a rate change, but earnings will be minimally impacted. Cost of chemicals used in the delivery of water is not an element of the MCBA, and therefore, variances in quantity or cost could impact the results of operations.

Our business requires significant capital expenditures to replace or improve aging infrastructure that are dependent on our ability to secure appropriate funding. If we are unable to obtain sufficient capital or if the rates at which we borrow increase, there would be a negative impact on our results of operations.

The water utility business is capital-intensive. We invest significant funds to replace or improve aging infrastructure such as property, plant and equipment. In addition, water shortages may adversely affect us by causing us to rely on more purchased water. This could cause increases in capital expenditures needed to build pipelines to secure alternative water sources. In addition, we require capital to grow our business through acquisitions. We fund our short-term capital requirements from cash received from operations and funds received from developers. We also borrow funds from banks under short-term bank lending arrangements. We seek to meet our long-term capital needs by raising equity through common or preferred stock issues or issuing debt obligations. We cannot give any assurance that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to earn a reasonable rate of return. In the event we are unable to obtain sufficient capital, our expansion efforts could be curtailed, which may affect our growth and may affect our future results of operations.

Our ability to access the capital markets is affected by the ratings of certain of our debt securities. Standard & Poor's Rating Agency issues a rating on California Water Service Company's ability to repay certain debt obligations. The credit rating agency could downgrade our credit rating based on reviews of our financial performance and projections or upon the occurrence of other events that could impact our business outlook. Lower ratings by the agency could restrict our ability to access equity and debt capital. We can give no assurance that the rating agency will maintain ratings which allow us to borrow under advantageous conditions and at reasonable interest rates. A future downgrade by the agency could also increase our cost of capital by causing potential investors to require a higher interest rate due to a perceived risk related to our ability to repay outstanding debt obligations.

While the majority of our debt is long term at fixed rates, we do have interest rate exposure in our short-term borrowings which have variable interest rates. We are also subject to interest rate risks on new financings. However, if interest rates were to increase on a long-term basis, our management believes that customer rates would increase accordingly, subject to approval by the appropriate commission. We can give no assurance that the Commission would approve such an increase in customer rates.

We are obligated to comply with specified debt covenants under certain of our loan and debt agreements. Failure to maintain compliance with these covenants could limit future borrowing, and we could face increased borrowing costs, litigation, acceleration of maturity schedules, and cross default issues. Such actions by our creditors could have a material adverse effect on our financial condition and results of operations.

Our inability to access the capital or financial markets could affect our ability to meet our liquidity needs at reasonable cost and our ability to meet long-term commitments. Changes in economic conditions in our markets could affect our customers' ability to pay for water services. Any of these could adversely affect our results of operations, cash flows and financial condition.

We rely on our current credit facilities to fund short-term liquidity needs if internal funds are not available from operations. Specifically, given the seasonal fluctuations in demand for our water we commonly draw on our credit facilities to meet our cash requirements at times in the year when demand is relatively low. We also may occasionally use letters of credit issued under our revolving credit facilities. Disruptions in the capital and credit markets could adversely affect our ability to draw on our credit facilities. Our access to funds under our credit facilities is dependent on the ability of our banks to meet their funding commitments.

Many of our customers and suppliers also have exposure to risks that could affect their ability to meet payment and supply commitments. We operate in geographic areas that may be particularly susceptible to declines in the price of real property, which could result in significant declines in demand for our products and services. In the event that any of our significant customers or suppliers, or a significant number of smaller customers and suppliers, are adversely affected by these risks, we may face disruptions in supply, significant reductions in demand for our products and services, inability of customers to pay invoices when due, and other adverse effects that could negatively affect our financial condition, results of operations and/or cash flows.

Our operations and certain contracts for water distribution and treatment depend on the financial capability of state and local governments, and other municipal entities such as water districts. Major disruptions in the financial strength or operations of such entities, such as liquidity limitations, bankruptcy or insolvency, could have an adverse effect on our ability to conduct our business and/or enforce our rights under contracts to which such entities are a party.

We are a holding company that depends on cash flow from our subsidiaries to meet our obligations and to pay dividends on our common stock.

As a holding company, we conduct substantially all of our operations through our subsidiaries and our only significant assets are investments in those subsidiaries. 93.8% of our revenues are derived from the operations of California Water Service Company. As a result, we are dependent on cash flow from our subsidiaries, and California Water Service Company in particular, to meet our obligations and to pay dividends on our common stock.

Our subsidiaries are separate and distinct legal entities and generally have no obligation to pay any amounts due on California Water Service Group's debt or to provide California Water Service Group with funds for dividends. Although there are no contractual or regulatory restrictions on the ability of our subsidiaries to transfer funds to us, the reasonableness of our capital structure is one of the factors considered by state and local regulatory agencies in their ratemaking determinations. Therefore, transfer of funds from our subsidiaries to us for the payment of our obligations or dividends may have an adverse effect on ratemaking determinations. Furthermore, our right to receive cash or other assets upon the liquidation or reorganization of a subsidiary is generally subject to the prior claims of creditors of that subsidiary. If we are unable to obtain funds from our subsidiaries in a timely manner, we may be unable to meet our obligations or pay dividends.

We can make dividend payments only from our surplus (the excess, if any, of our net assets over total paid-in capital) or if there is no surplus, the net profits for the current fiscal year or the fiscal year before which the dividend is declared. In addition, we can pay cash dividends only if after paying those dividends we would be able to pay our liabilities as they become due. Owners of our capital stock cannot force us to pay dividends and dividends will only be paid if and when declared by our board of directors. Our board of directors can elect at any time, and for an indefinite duration, not to declare dividends on our capital stock.

An important element of our growth strategy is the acquisition of water and wastewater systems. Risks associated with potential acquisitions, divestitures or restructurings may adversely affect us.

We may seek to acquire or invest in other companies, technologies, services or products that complement our business. The execution of our growth strategy may expose us to different risks than those associated with our utility operations. We can give no assurance that we will succeed in finding attractive acquisition candidates or investments, or that we would be able to reach mutually agreeable terms with such parties. In addition, as consolidation becomes more prevalent in the water and wastewater industries, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. If we are unable to find acquisition candidates or investments, our ability to grow may be limited.

Acquisition and investment transactions may result in the issuance of our equity securities that could be dilutive if the acquisition or business opportunity does not develop in accordance with our business plan. They may also result in significant write-offs and an increase in our debt. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

Any of these transactions could involve numerous additional risks, including one or more of the following:

- problems integrating the acquired operations, personnel, technologies, physical and cyber security processes, or products with our existing businesses and products;
- liabilities inherited from the acquired companies' prior business operations;
- diversion of management time and attention from our core business to the acquired business;
- failure to retain key technical, management, sales and other personnel of the acquired business;
- difficulty in retaining relationships with suppliers and customers of the acquired business; and
- difficulty in obtaining required regulatory approvals.

In addition, the businesses and other assets we acquire may not achieve the sales and profitability expected. The occurrence of one or more of these events may have a material adverse effect on our business. There can be no assurance that we will be successful in overcoming these or any other significant risks encountered.

We may not be able to increase or sustain our recent growth rate, and we may not be able to manage our future growth effectively.

We may be unable to continue to expand our business or manage future growth. To successfully manage our growth and handle the responsibilities of being a public company, we must effectively:

- hire, train, integrate and manage additional qualified engineers for engineering design and construction activities, new business personnel, and financial and information technology personnel;
- retain key management, augment our management team, and retain qualified and certified water and wastewater system operators;
- implement and improve additional and existing administrative, financial and operations systems, procedures and controls;
- expand our technological capabilities; and
- manage multiple relationships with our customers, regulators, suppliers and other third parties.

If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, satisfy customer requirements, execute our business plan or respond to competitive pressures.

We have a number of large-volume commercial and industrial customers and a significant decrease in consumption by one or more of these customers could have an adverse effect on our operating results and cash flows.

Our billed revenues and cash flows from operations will decrease if a significant business or industrial customer terminates or materially reduces its use of our water. Approximately \$161.1 million, or 24.2%, of our 2019 water utility revenues was derived from business and industrial customers. However, if any of our large business or industrial customers in California reduce or cease its consumption of our water, the impact to net operating income would be minimal to our operations due to the WRAM and MCBA, but could impact our cash flows. In Hawaii, we serve a number of large resorts which if their water usage was reduced or ceased could have a material impact to our Hawaii operation. The delay between such date and the effective date of the rate relief may be significant and could adversely affect our operating results and cash flows.

Our operating cost and costs of providing services may rise faster than our revenues.

Our ability to increase rates over time is dependent upon approval of such rate increases by the Commissions, or in the case of the City of Hawthorne and the City of Commerce, the City Council, which may be inclined, for political or other reasons, to limit rate increases. However, our costs, which are subject to market conditions and other factors, may increase significantly. The second largest component of our operating costs after water production is made up of salaries and wages. These costs are affected by the local supply and demand for qualified labor. Other large components of our costs are general insurance, workers compensation insurance, employee benefits and health insurance costs. These costs may increase disproportionately to rate increases authorized by the Commissions and may have a material adverse effect on our future results of operations.

Demand for our stock may fluctuate due to circumstances beyond our control.

We believe that stockholders invest in public utility stocks, in part, because they seek reliable dividend payments. If there is an over-supply of stock of public utilities in the market relative to demand by such investors, the trading price of our securities could decrease. Additionally, if interest rates rise above the dividend yield offered by our equity securities, demand for our stock, and consequently its market price, may also decrease. A decline in demand for our stock may have a negative impact on our ability to finance capital projects.

Adverse investment returns and other factors may increase our pension liability and pension funding requirements.

A substantial number of our employees are covered by a defined benefit pension plan. At present, the pension plan is underfunded because our projected pension benefit obligation exceeds the aggregate fair value of plan assets. Under applicable law, we are required to make cash contributions to the extent necessary to comply with minimum funding levels imposed by regulatory requirements. The amount of such required cash contribution is based on an actuarial valuation of the plan. The funded status of the plan can be affected by investment returns on plan assets, discount rates, mortality rates of plan participants, pension reform legislation and a number of other factors. There can be no assurance that the value of our pension plan assets will be sufficient to cover future liabilities. Although we have made contributions to our pension plan in recent years, it is possible that we could incur a pension liability adjustment, or could be required to make additional cash contributions to our pension plan, which would reduce the cash available for business and other needs.

Labor relations matters could adversely affect our operating results.

At December 31, 2019, 768 of our 1,207 total employees were union employees. Most of our unionized employees are represented by the Utility Workers Union of America, AFL-CIO, except certain engineering and laboratory employees who are represented by the International Federation of Professional and Technical Engineers, AFL-CIO.

We believe our labor relations are good, but in light of rising costs for health care and pensions, contract negotiations in the future may be difficult. Furthermore, changes in applicable law or regulations could have an adverse effect on management's negotiating position with respect to our currently unionized employees and/or employees that decide to unionize in the future. We are subject to a risk of work stoppages and other labor relations matters as we negotiate with the unions to address these issues, which could affect our results of operations and financial condition. We can give no assurance that issues with our labor forces will be resolved favorably to us in the future or that we will not experience work stoppages.

We depend significantly on the services of the members of our management team, and the departure of any of those persons could cause our operating results to suffer.

Our success depends significantly on the continued individual and collective contributions of our management team. The loss of the services of any member of our management team could have an adverse effect on our business as our management team has knowledge of our industry and customers and would be difficult to replace.

Our operations are geographically concentrated in California and this lack of diversification may negatively impact our operations.

Although we own facilities in a number of states, over 93.8% of our operations are located in California. As a result, we are largely subject to weather, political, water supply, labor, energy cost, regulatory and economic risks affecting California.

We are also affected by the real property market in California. In order to grow our business, we may need to acquire additional real estate or rights to use real property owned by third parties, the cost of which tends to be higher and more volatile in California than in other states. The value of our assets in California may decline if there is a decline in the California real estate market which results in a significant decrease in real property values.

We retain certain risks not covered by our insurance policies.

We evaluate our risks and insurance coverage annually or more frequently if circumstances dictate. Our evaluation considers the costs, risks and benefits of retaining versus insuring various risks as well as the availability of certain types of insurance coverage. Furthermore, we are also affected by increases in prices for insurance coverage; in particular, we have been, and will continue to be, affected by rising health insurance costs. Retained risks are associated with deductible limits, partial self-insurance programs and insurance policy coverage ceilings. If we suffer an uninsured loss, we may be unable to pass all, or any portion, of the loss on to customers because our rates are regulated by regulatory commissions. Consequently, uninsured losses may negatively affect our financial condition, liquidity and results of operations. There can be no assurance that we will not face uninsured losses pertaining to the risks we have retained.

Our enterprise risk management processes may not be effective in identifying and mitigating the risks to which we are subject, or in reducing the potential for losses in connection with such risks.

Our enterprise risk management processes are designed to minimize or mitigate the risks to which we are subject, as well as any losses stemming from such risks. Although we seek to identify, measure, monitor, report, and control our exposure to such risks, and employ a broad and diversified set of risk monitoring and mitigation techniques in the process, those techniques are inherently limited in their ability to anticipate the existence or development of risks that are currently unknown and unanticipated. The ineffectiveness of our enterprise risk management processes in mitigating the impact of known risks or the emergence of previously unknown or unanticipated risks may result in our incurring losses in the future that could adversely impact our financial condition and results of operations.

The accuracy of our judgments and estimates about financial and accounting matters will impact our operating results and financial condition.

We make certain estimates and judgments in preparing our financial statements regarding, among others:

- the useful life of intangible rights;
- the number of years to depreciate certain assets;
- amounts to set aside for uncollectible accounts receivable, inventory obsolescence and uninsured losses;
- our legal exposure and the appropriate accrual for claims, including medical claims and workers' compensation claims;
- future costs and assumptions for pensions and other postretirement benefits;
- regulatory recovery of regulatory assets;
- possible tax uncertainties; and
- projected collections of WRAM and MCBA receivables.

The quality and accuracy of those estimates and judgments will have an impact on our operating results and financial condition.

In addition, we must estimate unbilled revenues and costs as of the end of each accounting period. If our estimates are not accurate, we will be required to make an adjustment in a future period. Accounting rules permit us to use expense balancing accounts and memorandum accounts that include cost changes to us that are different from amounts incorporated into the rates approved by the Commissions. These accounts result in expenses and revenues being recognized in periods other than in which they occurred.

Municipalities, water districts and other public agencies may condemn our property by eminent domain action.

State statutes allow municipalities, water districts and other public agencies to own and operate water systems. These agencies are empowered to condemn water systems or real property owned by privately owned public utilities in certain circumstances and in compliance with California and federal law. Additionally, whenever a public agency constructs facilities to extend its utility system into the service area of a privately owned public utility, such an act may constitute the taking of property and require reimbursement to the public utility for its loss. If a public agency were to file an eminent domain lawsuit against us, we would incur substantial attorney's fees, consultant and expert fees and other costs in considering a challenge to the right to take our utility property and/or its valuation for just compensation, as well as such fees and costs in any subsequent litigation if necessary. If the public agency prevailed and acquired our utility property, we would be entitled to just compensation for our loss, but we would no longer have access to the condemned property or water system. Neither would we be entitled to any portion of revenue generated from the use of such asset going forward.

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. *Properties.*

Our physical properties consist of offices and water facilities to accomplish the production, storage, treatment, and distribution of water. These properties are located in or near the geographic service areas listed above in Item 1, "Business—Geographical Service Areas and Number of Customer Connections at Year-end." Our headquarters, which houses accounting, engineering, information systems, human resources, purchasing, regulatory, water quality, and executive staff, is located in San Jose, California.

The real properties owned are held in fee simple title. Properties owned by Cal Water are subject to the lien of an Indenture of Mortgage and Deed of Trust dated June 11, 2019, March 16, 2016, October 13, 2015, November 22, 2010, and April 17, 2009 (the California Indenture), securing Cal Water's First Mortgage Bonds, of which \$801.2 million was outstanding at December 31, 2019. The California Indenture contains certain restrictions common to such types of instruments regarding the disposition of property and includes various covenants and restrictions. At December 31, 2019, our California utility was in compliance with the covenants of the California Indenture.

Cal Water owns 596 wells and operates eleven leased wells. There are 448 owned storage tanks with a capacity of 295 million gallons, two leased storage tanks with a capacity of 0.4 million gallons, 30 managed storage tanks with a capacity of 32.4 million gallons, and three surface water reservoirs with a capacity of 220 million gallons. Cal Water owns and operates six surface water treatment plants with a combined capacity of 46 million gallons per day. There are 5,920 miles of supply and distribution mains in the various systems.

Hawaii Water owns 22 wells and manages two irrigation wells. There are 24 storage tanks with a storage capacity of 20.1 million gallons. There are 80 miles of supply and distribution lines. Hawaii Water operates five wastewater treatment facilities with a combined capacity to process approximately 2.1 million gallons per day. There are 29 miles of sewer collection mains including force mains.

Washington Water owns 352 wells and manages seven wells. There are 147 owned storage tanks and two managed storage tanks with a storage capacity of 7.8 million gallons. There are 406 miles of supply and distribution lines.

New Mexico Water owns 20 wells. There are 17 storage tanks with a storage capacity of 3.8 million gallons. There are 145 miles of supply and distribution lines. New Mexico operates two waste water treatment facilities with a combined capacity to process 0.62 million gallons per day. There are eight life stations and 35 miles of sewer collection mains.

Washington Water has long-term bank loans that are secured primarily by utility plant owned by Washington Water.

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

Item 3. *Legal Proceedings.*

Information with respect to this item may be found under the subheading "Commitments and Contingencies" in Note 14 to the consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Item 4. *Mine Safety Disclosures.*

Not applicable.

PART II

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

Our common stock is traded on the New York Stock Exchange under the symbol "CWT." At December 31, 2019, there were 48,532,199 common shares outstanding. There were 1,922 common stockholders of record as of February 10, 2020.

During 2019, we paid a cash dividend of \$0.7900 per common share, or \$0.1975 per quarter. During 2018, we paid a cash dividend of \$0.7500 per common share, or \$0.1875 per quarter. On January 29, 2020, our Board of Directors declared a quarterly cash dividend of \$0.2125 per common share payable on February 21, 2020, to stockholders of record on February 10, 2020. This

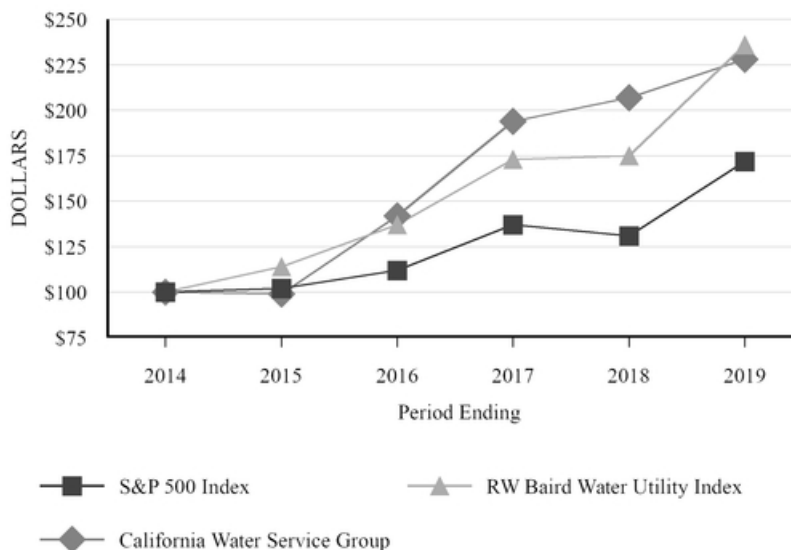
represents an indicated annual cash dividend of \$0.8500, and would be our 53rd consecutive year of increasing the annual dividend and marks the 300th consecutive quarterly dividend.

We presently intend to pay quarterly cash dividends in the future consistent with past practices, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant.

Five-Year Performance Graph

The following performance graph compares the changes in the cumulative shareholder return on California Water Service Group's common stock with the cumulative total return on the Robert W. Baird Water Utility Index and the Standard & Poor's 500 Index during the last five years ended December 31, 2019. The comparison assumes \$100 was invested on December 31, 2014, in California Water Service Group's common stock and in each of the forgoing indices and assumes reinvestment of dividends.

Performance Graph Data



The following descriptive data is supplied in accordance with Rule 304(d) of Regulations S-T:

	2014	2015	2016	2017	2018	2019
California Water Service Group	100	99	142	194	207	228
S&P 500	100	102	112	137	131	172
RW Baird Water Utility Index	100	114	137	173	175	236

An initial \$100 investment in the common stock of California Water Service Group on December 31, 2014 including reinvestment of dividends would be worth \$228 at the end of the 5-year period ending December 31, 2019.

Item 6. Selected Financial Data.

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto and the information contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Historical results are not necessarily indicative of future results.

FIVE YEAR FINANCIAL REVIEW

	2019	2018	2017	2016	2015
(Dollars in thousands, except per common share and other data)					
Summary of Operations					
Operating revenue	714,557	698,196	676,113	609,370	588,368
Total operating expenses (b)	615,145	587,656	569,030	526,734	506,803
Interest expense, other income and expenses, net (b)	36,296	44,956	34,143	33,961	36,548
Net income	\$ 63,116	\$ 65,584	\$ 72,940	\$ 48,675	\$ 45,017
Common Share Data					
Earnings per share—diluted	\$ 1.31	\$ 1.36	\$ 1.52	\$ 1.01	\$ 0.94
Dividend paid	0.7900	0.7500	0.7200	0.6900	0.6700
Dividend payout ratio	60.31%	55.15%	47.37%	68.32%	71.28%
Book value per share	\$ 16.07	\$ 15.19	\$ 14.56	\$ 13.75	\$ 13.41
Market price at year-end	51.56	47.66	45.35	33.90	23.27
Common shares outstanding at year-end (in thousands)	48,532	48,065	48,012	47,965	47,875
Return on average common stockholders' equity	8.36%	9.18%	10.73%	7.50%	7.10%
Long-term debt interest coverage	3.10	3.57	4.58	3.45	3.67
Balance Sheet Data					
Net utility plant	\$ 2,406,370	\$ 2,232,723	\$ 2,047,965	\$ 1,859,277	\$ 1,701,768
Total assets (a)	3,111,308	2,837,704	2,744,710	2,411,745	2,241,253
Long-term debt including current portion, net (a)	808,622	814,938	531,713	557,953	514,045
Capitalization ratios:					
Common stockholders' equity (a)	49.10%	47.30%	56.80%	54.20%	55.50%
Long-term debt (a)	50.90%	52.70%	43.20%	45.80%	44.50%
Other Data					
Estimated water production (million gallons)					
Wells and surface supply	50,992	54,228	53,855	50,942	51,413
Purchased	53,743	53,361	51,131	48,154	47,486
Total estimated water production	104,735	107,589	104,986	99,096	98,899
Metered customers	498,900	494,600	490,100	485,200	477,300
Flat-rate customers	21,700	22,900	24,200	26,300	31,700
Customers at year-end (c)	520,600	517,500	514,300	511,500	509,000
New customers added	3,100	3,200	2,800	2,500	2,900
Revenue per customer	\$ 1,373	\$ 1,349	\$ 1,315	\$ 1,191	\$ 1,156
Utility plant per customer	6,820	6,240	5,775	5,312	4,925
Employees at year-end	1,207	1,184	1,176	1,163	1,155

(a) The five year financial review for 2015 reflects the retrospective adoption of ASU 2015-03, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company adopted this guidance effective January 1, 2016.

(b) The five year financial review for 2017, 2016, and 2015 reflect the retrospective adoption of ASU 2017-07, which requires employers to present the service cost component of the net periodic benefit cost as part of operating expenses. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service cost/credit and actuarial gain/loss, and settlement and curtailment effects, are to be presented as non-regulated expenses. The Company adopted this guidance effective January 1, 2018.

(c) Includes customers of the City of Hawthorne and City of Commerce

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

The following sections include a discussion of results for fiscal 2019 compared to fiscal 2018 as well as certain 2017 results. The comparative results for fiscal 2018 with fiscal 2017 generally have not been included in this Form 10-K, but may be found in "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Overview

In 2019 and 2018, net income was \$63.1 million and \$65.6 million, respectively. Earnings per diluted common share decreased \$0.05 to \$1.31 or 3.7% from 2018 to 2019. The \$2.5 million decrease in net income was driven primarily by increases of \$7.8 million in administrative and general, \$10.2 million in other operations, \$5.4 million of depreciation and amortization, \$2.3 million of maintenance, \$1.5 million of property and other taxes, and \$3.4 million of net interest expense. In addition, a reduction in the income tax benefit from repairs deductions resulted in a \$2.3 million decrease in 2019 net income as compared to the prior year. These cost increases were partially offset by general rate increases of \$19.7 million, a reduction in business development expenses of \$4.4 million, and an increase in the allowance for equity funds used during construction of \$2.7 million.

Changes driven by factors outside the Company's immediate control partially offset the decrease in 2019 net income. They included a \$7.4 million unrealized gain from certain benefit plan investments due to market conditions, which was partially offset by a \$2.2 million reduction in the unbilled revenue accrual and a \$1.6 million decrease in the benefits from Company-owned life insurance.

We plan to continue to seek rate relief to recover our operating cost increases and receive reasonable returns on invested capital. We expect to fund our long-term capital needs through a combination of debt, common stock offerings, and cash flow from operations.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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.

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 "other accrued liabilities" on the consolidated balance sheets, is inconsequential.

Regulatory balancing account revenue

The Company's ability to recover revenue requirements authorized by the CPUC in its triennial 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. These mechanisms include the following:

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), Conservation Balancing Account, Pension Cost Balancing Account, and Health Cost Balancing Account, 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.

Regulated Utility Accounting

Because we operate almost exclusively in a regulated business, we are subject to the accounting standards for regulated utilities. The Commissions in the states in which we operate establish rates that are designed to permit the recovery of the cost of service and a return on investment. We capitalize and record regulatory assets for costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. Regulatory assets are amortized over the future periods that the costs are expected to be recovered. If costs expected to be incurred in the future are currently being recovered through rates, we record those expected future costs as regulatory liabilities. In addition, we record regulatory liabilities when the Commissions require a refund to be made to our customers over future periods.

Determining probability requires significant judgment by management and includes, but is not limited to, consideration of testimony presented in regulatory hearings, proposed regulatory decisions, final regulatory orders, and the strength or status of applications for rehearing or state court appeals.

If we determine that a portion of our assets used in utility operations is not recoverable in customer rates, we would be required to recognize the loss of the assets disallowed.

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. We measure deferred tax assets and liabilities at enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on the deferred tax assets and liabilities of a change in tax rate in the period that includes the enactment date. We also assess the likelihood that deferred tax assets will be recovered in future taxable income and, to the extent recovery is not probable, a valuation allowance would be recorded. In management's view, a valuation allowance was not required as of December 31, 2019 and December 31, 2018.

We anticipate that future rate actions by the regulatory commissions will reflect revenue requirements for the tax effects of temporary differences recognized, which have previously been passed through to customers. The regulatory commissions have granted the Company permission to reflect the normalization of the tax benefits of the federal accelerated methods and available Investment Tax Credits (ITCs) for all assets placed in service after 1980. ITCs are deferred and amortized over the lives of the related properties for book purposes. The CPUC requires flow through accounting for state deferred taxes.

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was enacted. Based on the accounting principles generally accepted in the United States of America, the Company is required to re-measure deferred income taxes to reflect the corporate income tax rate change from 35 percent to 21 percent as of the date of enactment. The re-measurement of the deferred income taxes resulted in an estimated excess deferred income tax liability of \$121.0 million as of December 31, 2019. The TCJA lowered ratepayers' rates in 2018 and 2019 due to lower income tax expense recoveries and resulted in the quantification of excess deferred income tax balances collected from ratepayers. The lower customer rates will be partially offset by the TCJA's effect of increasing rate base in future years. The Company is working with state regulators on the refund process for excess deferred income taxes collected from ratepayers in prior years that complies with the federal income tax normalization rules.

There are aspects to the TCJA that contain technical matters that require management to interpret the legislation and make judgments until further guidance becomes available. As a result, changes in management's judgments could materially affect amounts recognized in the financial statements.

Pension and Postretirement Health Care Benefits

We incur costs associated with our pension and postretirement health care benefits plans. To measure the expense of these benefits, our management must estimate compensation increases, mortality rates, future health cost increases and discount rates used to value related liabilities and to determine appropriate funding. Different estimates used by our management could result in significant variances in the cost recognized for pension and postretirement health care benefit plans. The estimates used are based on historical experience, current facts, future expectations, and recommendations from independent advisors and actuaries. We use an investment advisor to provide advice in managing the plan's investments. We anticipate any increases in funding for the pension benefits plans will be recovered in future rate filings, thereby mitigating the financial impact. We believe it is probable that future costs will be recovered in future rates and therefore have recorded a regulatory asset in accordance with generally accepted accounting principles.

Changes to the pension benefits actuarial assumptions can significantly affect pension costs, regulatory assets, and liabilities. The following table reflects the sensitivity of pension amounts reported for the year ended December 31, 2019, to changes in actuarial assumptions:

	Increase/(Decrease) in Pension Benefits Actuarial Assumption	Increase/(Decrease) in 2019 Net Periodic Benefit Cost	Increase/(Decrease) in Projected Benefit Obligation as of December 31, 2019
Dollars in thousands			
Discount rate	(0.5)%	\$ 7,617	\$ 86,772
Long-term rate of return on plan assets	(0.5)%	2,329	—
Rate of compensation increases	(0.5)%	(3,248)	(23,132)
Cost of living adjustment	(0.5)%	(6,156)	(52,291)
Discount rate	0.5%	(6,596)	(75,156)
Long-term rate of return on plan assets	0.5%	(2,330)	—
Rate of compensation increases	0.5%	3,492	24,773
Cost of living adjustment	0.5%	6,691	56,917

Results of Operations

Operating Revenue

Operating revenue in 2019 was \$714.6 million, an increase of \$16.4 million, or 2.3%, over 2018. Operating revenue in 2018 was \$698.2 million, an increase of \$22.1 million, or 3.3%, over 2017. The sources of changes in operating revenue were:

	2019	2018
	Dollars in millions	
Net change in WRAM, service charges, usage, and other (1)	\$ 23.1	\$ 9.3
MCBA revenue (2)	(5.3)	3.5
Other balancing account revenue (3)	3.8	3.1
Deferral of revenue (4)	(5.2)	6.2
Net change	\$ 16.4	\$ 22.1

- (1) In 2019, the operating revenue increase is due to rate increases, which increase WRAM and service charges (see table in Rates and Regulation section below), partially offset by a \$2.2 million decrease in accrued unbilled revenue.
- (2) The MCBA revenue decrease in 2019 resulted from a decrease in actual water production costs relative to adopted water production costs in 2019 as compared to 2018. As required by the MCBA mechanism, the change in water production costs in California changes operating revenue in the same amount.
- (3) The other balancing accounts revenue consists of the pension cost, conservation and health cost balancing account revenues. Pension cost and conservation balancing account revenues are the differences between actual expenses and adopted rate recovery. Health cost balancing account revenue is 85% of the difference between actual health care expenses and adopted rate recovery. In 2019, the increase in other balancing account revenue was due to an increase in actual conservation expenses relative to adopted in 2019 as compared to 2018, which was partially offset by a decrease in actual pension expenses relative to adopted in 2019 as compared to 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. In 2019, the deferral increased as compared to 2018 due a decline in actual customer usage relative to adopted customer usage in 2019 as compared to 2018.

Water Production Expenses

Water production expenses, which consist of purchased water, purchased power, and pump taxes, comprise the largest segment of total operating expenses. Water production costs accounted for 41.5% and 43.0%, of total operating costs in 2019 and 2018, respectively. The rates charged for wholesale water supplies, electricity, and pump taxes are established by various public agencies. As such, these rates are beyond our control.

The table below provides the change in water production expenses during the past 2 years:

	2019			2018		
	Amount	Change	% Change	Amount	Change	% Change
	Dollars in millions					
Purchased water	\$ 212.5	\$ 5.4	2.6 %	\$ 207.1	\$ 8.0	4.0 %
Purchased power	31.4	0.3	1.0 %	31.1	2.2	7.6 %
Pump taxes	11.5	(3.2)	(21.8) %	14.7	0.8	5.8 %
Total water production expenses	\$ 255.4	\$ 2.5	1.0 %	\$ 252.9	\$ 11.0	4.5 %

The principal factors affecting water production expenses are the quantity, price and source of the water. Generally, water pumped from wells costs less than water purchased from wholesale suppliers.

The table below provides the amounts, percentage change, and source mix for the respective years:

	2019			2018		
	MG	% of Total	% change from prior year	MG	% of Total	% change from prior year
Millions of gallons (MG)						
Source:						
Wells	45,575	43.5%	(7.6)%	49,340	45.9%	1.3 %
Purchased	53,743	51.3%	0.7 %	53,361	49.6%	4.4 %
Surface	5,417	5.2%	10.8 %	4,888	4.5%	(4.6)%
Total	104,735	100.0%	(2.7)%	107,589	100.0%	2.5 %

Purchased water expenses are affected by changes in quantities purchased, supplier prices, and cost differences between wholesale suppliers. The MCBA mechanism is designed to recover all incurred purchased water expenses.

For 2019, the \$5.4 million increase in purchased water expenses is due to a 0.7% increase in purchased quantities and an overall blended water wholesaler rate increase of 1.9%.

Purchased power expenses are affected by the quantity of water pumped from wells and moved through the distribution system, rates charged by electric utility companies, and rate structures applied to usage during peak and non-peak times of the day or season. In 2019, purchased power expenses increased \$0.3 million, or 1.0%, mainly due to a 10.8% increase in surface water production.

Changes in climate change regulations could increase the cost of power which in turn would result in an increase in the rates our power suppliers charge us. Any change in pricing of our purchased power expenses in California would be recovered from our customers through the MCBA mechanism. Any change in power costs in other states would be requested to be recovered by the customers in those states. The impact of such legislation is dependent upon the enacted date, the factors that impact our suppliers' cost structure, and their ability to pass the costs to us in their approved tariffs. These items are not known at this time.

Administrative and General Expenses

Administrative and general expenses include payroll related to administrative and general functions, all employee benefits charged to expense accounts, insurance expenses, legal fees, expenses associated with being a public company, and general corporate expenses.

During 2019, administrative and general expenses increased \$7.8 million or 7.8%, as compared to 2018. The increase was mostly due to employee wage increases of \$3.2 million, legal and outside services fees increase of \$3.1 million, and uninsured losses of \$1.2 million which were partially offset by a \$2.2 million decrease in employee pension and retiree medical expenses. Also, 2018 expenses were partially offset by the recovery of \$2.6 million for 2016 and 2017 drought program incremental costs. Employee pension benefit expenses are fully recovered in rates and are tracked in the pension cost balancing account, such that revenues are recovered on a dollar-for-dollar basis up to the amounts authorized in the 2015 GRC. Employee and retiree medical expenses are recovered in rates through health cost balancing account authorized in the 2015 GRC, such that revenues are recovered up to 85% of the variance between adopted and recorded expenses.

Other Operations Expenses

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

During 2019, other operations expenses increased \$10.2 million, or 12.8%, compared to 2018. The increase was mostly due to increases in water conservation program expenses of \$8.1 million, PSPS program costs of \$1.5 million, software licensing fees of \$1.3 million, employee wage increases of \$0.7 million, property maintenance costs of \$0.6 million, and a \$0.4 million increase from the impairment of utility plant from the California GRC. These cost increases were partially offset by a decrease in costs associated with the deferral of operating revenue of \$4.2 million. Also, 2018 expenses were partially offset by the recovery of \$0.7 million for 2016 and 2017 drought program incremental costs. Water conservation program expenses are fully recovered in rates and are tracked in the conservation balancing account if it is within the authorized amount, such that revenues are recovered on a dollar-for-dollar basis up to the amounts authorized in the 2015 GRC.

Maintenance

Maintenance expenses increased \$2.3 million, or 9.6%, in 2019, compared to 2018 due to increased costs for repairs of reservoirs, structures, and transmission and distribution mains.

Depreciation and Amortization

Depreciation and amortization increased \$5.4 million in 2019, or 6.5%, primarily due to capital additions.

Income Taxes

For 2019, income taxes decreased \$2.3 million, or 12.4%, to \$16.3 million as compared to 2018. The decrease was primarily due to a reduction in operating income which was partially offset by a \$2.3 million decrease in the tax benefit from the flow through method of accounting for "repairs" deductions on our corporate state income tax filings. The Company's effective combined income tax rate for 2019 was 21.9% as compared to 19.5% for 2018.

Property and Other Taxes

For 2019, property and other taxes increased \$1.5 million, or 5.5%, as compared to 2018. The increase was due to an increase in our assessed property values for utility plant placed in service during the year.

Other Income and Expenses

In 2019, net other income increased \$12.0 million to net other income of \$4.9 million as compared to a net other loss of \$7.1 million in 2018. The increase was due primarily to a \$7.4 million increase in unrealized gains from certain benefit plan investments due to market conditions, a \$4.4 million decrease in business development expenses, and a \$2.7 million increase in the allowance for equity funds used during construction, which was partially offset by wage increases of \$0.7 million and a decrease in the benefits from Company-owned life insurance of \$1.6 million.

Net Interest Expense

In 2019, net interest expense increased \$3.4 million as compared to 2018. The increase relates to an increase in average daily borrowings on the unsecured revolving credit facilities, which were used to fund capital expenditures and general corporate purposes.

Rates and Regulation

The following is a summary of 2019 rate filings. A description of the "Type of Filing" can be found in the "Item 1 - Rates and Regulation" section above. California decisions and resolutions may be found on the CPUC website at www.cpuc.ca.gov.

Type of Filing	Decision/Resolution	Effective Date	Increase (Decrease) Annual Revenue	CA District/ Subsidiary
GRC and Offset Filings				
2019 Expense Offset	AL 2319-2323	Jan 2019	\$2.0 million	5 Districts
2019 Escalation rate increases	AL 2324 and 2332	Jan 2019	\$16.2 million	All Districts
Waikoloa GRC		Jan 2019	\$1.6 million	Hawaii Water
2019 Rate Base Offset	AL 2325-2328	Apr 2019	\$0.2 million	4 Districts
2019 Expense Offset	AL 2345-2349	July 2019	\$3.9 million	5 Districts
2019 Rate Base Offset	AL 2350	Nov 2019	\$0.4 million	1 District

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The estimated impact of current and prior year rate changes on operating revenues compared to prior years is listed in the following table:

	2019	2018
	Dollars in millions	
General Rate Case (GRC) (a)	\$ 3.5	\$ 4.9
Escalation rate increases (b)	16.2	15.4
Expense offset (purchased water/pump taxes) (c)	5.7	5.8
Tax Cut Jobs Act (d)	—	(10.7)
Cost of capital (d)	—	(6.3)
Total rate increases	\$ 25.4	\$ 9.1

- (a) Includes rate changes for the Cal Water 2015 GRC decision in 2017, rate base offsets in 2019, 2018 and 2017, Hawaii Water GRC decisions in 2019, 2018, and 2017 and Washington Water GRC decision in 2019 and 2018.
- (b) Includes rate changes for escalation rate increases in 2019 and 2018.
- (c) Includes purchased water and pump tax offsets for 2019, 2018 and 2017.
- (d) Customer rates were reduced beginning July 1, 2018 for the Tax Cuts Jobs Act and Cost of Capital decision in California. Includes revenue reduction recorded as regulatory liability for the first six months of 2018.

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.

California's normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington Water service areas receive precipitation in all seasons, with the heaviest amounts during the winter. New Mexico Water's rainfall is heaviest in the summer monsoon season. Hawaii Water receives precipitation throughout the year, with the largest amounts in the winter months. Water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2020 and beyond. However, water rationing may be required in future periods, if declared by the state or local jurisdictions. 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.

Liquidity and Capital Resources

Cash flow from Operations

During 2019, we generated cash flow from operations of \$168.8 million, compared to \$179.0 million during 2018. The decrease in 2019 was primarily due to an increase in net WRAM and MCBA receivable in 2019 as actual customer usage was below adopted.

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 sufficient to cover operating and capital costs during the winter period. The increase in cash flow during the summer allows short-term borrowings to be paid down. Customer water usage can be lower than normal in years when more than normal precipitation falls in our service areas or temperatures are lower than normal, especially in the summer months. The reduction in water usage reduces cash flow from operations and increases the need for short-term bank borrowings. In addition, short-term borrowings are used to finance capital expenditures until long-term financing is arranged.

Investing Activities

During 2019, 2018, and 2017, we used \$273.8 million, \$271.7 million and \$259.2 million, respectively, of cash for capital expenditures, both Company-funded and developer-funded. The 2019 capital expenditures exceeded the high end of the budgeted capital expenditures of \$260.0 million. Annual expenditures fluctuate each year due to the availability of construction resources and our ability to obtain construction permits in a timely manner.

Financing Activities

During 2019, we borrowed \$260.0 million, and paid down \$150.0 million on our unsecured revolving credit facilities to fund capital expenditures and for general corporate purposes. We also added \$27.8 million of advances and contributions in aid of construction, which was reduced by refunds to developers of \$7.6 million. We issued \$400.0 million of First Mortgage Bonds on June 11, 2019 in a private placement and used the net proceeds to pay down Cal Water's unsecured revolving credit facility and for general corporate purposes. We also repaid \$405.6 million of First Mortgage Bonds that matured or were redeemed in 2019 and other long-term debt obligations. In addition, we issued \$20.4 million of Company common stock through our at-the-market equity plan and our employee stock purchase plan that went into effect on January 1, 2019 (see Note 6 in the Notes to Consolidated Financial Statements for additional information).

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 under-collected net WRAM and MCBA receivable balances were \$62.6 million, \$56.1 million, and \$69.1 million as of December 31, 2019, 2018, and 2017, respectively. The increase of \$6.5 million from December 31, 2018 to December 31, 2019 was primarily due to actual customer usage being lower than adopted. The under-collected net WRAM and MCBA receivable balances were primarily financed by Cal Water with short-term and long-term financing arrangements to meet operational cash requirements. Interest on the under-collected net WRAM and MCBA receivable balances, the interest recoverable from customers, is limited to the current 90-day commercial paper rate, which is significantly lower than Cal Water's short and long-term financing rates.

Bond principal and other long-term debt payments were \$405.6 million during 2019, \$16.5 million during 2018, and \$26.8 million during 2017.

At the January 2020 meeting, the Board of Directors declared the quarterly dividend, increasing it for the 53rd consecutive year. The quarterly dividend was raised from \$0.1975 to \$0.2125 per common share. This represents an indicated annual rate of \$0.8500 per common share. Dividends have been paid for 74 consecutive years. The annual dividends paid per common share in 2019, 2018, and 2017 were \$0.7900, \$0.7500, and \$0.7200, respectively. Earnings not paid as dividends are reinvested in the business for the benefit of stockholders. The dividend payout ratio was 60.3% in 2019, 55.2% in 2018, and 47.4% in 2017 for an average of 54.3% over the 3-year period. Our long-term targeted dividend payout ratio is 60%.

Short-Term Financing

Short-term liquidity is provided by the bank lines of credit described above and by internally generated funds. As of December 31, 2019, there were borrowings of \$175.1 million outstanding on our unsecured revolving lines of credit, compared to \$65.1 million outstanding on our unsecured revolving lines of credit as of December 31, 2018.

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.

The Company and subsidiaries which it designates may borrow up to \$150.0 million under its credit facility. Cal Water may borrow up to \$400.0 million under its credit facility; however, all borrowings currently need to be repaid within 24 months unless otherwise authorized by the CPUC.

Both 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 "interest coverage ratio" of three or more (each as defined in the respective credit agreements). As of December 31, 2019, our consolidated total capitalization ratio was 58.4% and the interest coverage ratio was greater than five. In summary, as of such date, we met all of the covenant requirements and were eligible to use the full amounts of these credit agreements.

Long-Term Financing

Long-term financing is accomplished through the use of both debt and equity. Cal Water was authorized to issue \$350.0 million of debt and common stock to finance capital projects and operations by a CPUC decision dated May 12, 2016. In addition, the decision retained \$146.0 million of prior financing authority and determined that refinancing long-term debt did not count against the authorization. The CPUC requires that any loans from Cal Water to the Company be at arm's length. This restriction did not materially impact the Company's ability to meet its cash obligations in 2019. Management does not expect this restriction to have a material impact on the Company's ability to meet its cash obligations in 2020 and beyond.

On June 11, 2019, Cal Water issued \$400.0 million of First Mortgage Bonds (see Note 8) 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. Long-term financing, which includes First Mortgage Bonds, senior notes, other debt securities, and common stock, has typically been used to replace short-term borrowings and fund capital expenditures. Internally generated funds, after making dividend payments, provide positive cash flow, but have not been at a level to meet the needs of our capital expenditure requirements. Management expects this trend to continue given our capital expenditures plan for the next five years. Some capital expenditures are funded by payments received from developers for contributions in aid of construction or advances for construction. Funds received for contributions in aid of construction are non-refundable, whereas funds classified as advances in construction are refundable. Management believes long-term financing is available to meet our cash flow needs through issuances in both debt and equity instruments.

Additional information regarding the bank borrowings and long-term debt is presented in Notes 7 and 8 in the Notes to Consolidated Financial Statements.

Equity Issuance

On October 31, 2019, the Company entered into an equity distribution agreement 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. Additional information regarding this program is presented in Note 6 of the Notes to Consolidated Financial Statements.

Off-Balance Sheet Transactions

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

Contractual Obligations

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions and changes in interest rates, as well as action by third parties and other factors, may cause these estimates to change. Therefore, our actual payments in future periods may vary from those presented in the table below.

The following table summarizes our contractual obligations as of December 31, 2019.

	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
	(In thousands)				
Long-term debt (a)	\$ 807,429	\$ 21,693	\$ 9,909	\$ 1,658	\$ 774,169
Interest payments	793,673	38,308	72,579	71,736	611,050
Advances for construction	191,062	7,628	15,254	15,254	152,926
Pension and postretirement benefits (b)	285,089	18,889	43,875	52,603	169,722
Finance lease obligations (c)	7,051	986	1,974	2,446	1,645
Operating lease obligations	18,245	1,951	3,312	2,777	10,205
Water supply contracts (d)	777,093	34,550	69,101	69,100	604,342
TOTAL	<u>\$ 2,879,642</u>	<u>\$ 124,005</u>	<u>\$ 216,004</u>	<u>\$ 215,574</u>	<u>\$ 2,324,059</u>

- (a) Excludes finance lease obligations as reported below. Also, excludes unamortized debt issuance costs of \$4.7 million.
- (b) Pension and postretirement benefits include \$2.1 million of short-term pension obligations.
- (c) Finance lease obligations represent total cash payments to be made in the future and include interest expense of \$1.2 million.
- (d) Estimated annual contractual obligations are based on the same payment levels as 2019.

For pension and postretirement benefits other than pensions obligations, see Note 11 of the Notes to the Consolidated Financial Statements.

Long-term debt payments include annual sinking fund payments on First Mortgage Bonds, maturities of long-term debt, and annual payments on other long-term obligations.

Advances for construction represent annual contract refunds to developers for the cost of water systems paid for by the developers. The contracts are non-interest bearing, and refunds are generally on a straight-line basis over a 40-year period. System and facility leases include obligations associated with leasing water systems and rents for office space.

For finance and operating lease obligations, see Note 14 of the Notes to the Consolidated Financial Statements.

Cal Water has water supply contracts with wholesale suppliers in 13 of its operating districts and for the two leased systems in Hawthorne and Commerce. For each contract, the cost of water is established by the wholesale supplier and is generally beyond our control. The amount paid annually to the wholesale suppliers is charged to purchased water expense on our statement of income. Most contracts do not require minimum annual payments and vary with the volume of water purchased. For more details related to water supply contracts, see Note 11 of the Notes to the Consolidated Financial Statements.

Capital Requirements

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

Company-funded and developer-funded utility plant expenditures were \$273.8 million, \$271.7 million, and \$259.2 million in 2019, 2018, and 2017, respectively. A majority of capital expenditures was associated with mains and water treatment equipment.

For 2020, the Company is estimating its capital expenditures to be between \$260.0 million and \$290.0 million based on the pending 2018 GRC in California and normal capital needs in the other subsidiaries. Capital expenditures in California are evaluated in the context of the pending GRC and may change as the case moves forward. We expect our annual capital expenditure to increase during the next five years due to increasing needs to replace and maintain infrastructure.

Management expects developer-funded expenditures in 2020. These expenditures will be financed by developers through refundable advances for construction and non-refundable contributions in aid of construction. Developers are required to deposit the cost of a water construction project with us prior to our commencing construction work, or the developers may construct the facilities themselves and deed the completed facilities to us. Funds are generally received in advance of incurring costs for these projects. Advances are normally refunded over a 40-year period without interest. Future payments for advances received are listed

under contractual obligations above. Because non-Company-funded construction activity is solely at the discretion of developers, we cannot predict the level of future activity. The cash flow impact is expected to be minor due to the structure of the arrangements.

Capital Structure

Common stockholders' equity was \$779.9 million at December 31, 2019, compared to \$730.2 million at December 31, 2018. The Company sold 381,105 shares of its common stock in 2019 through its at-the-market equity program.

Total capitalization, including the current portion of long-term debt, was \$1,588.5 million at December 31, 2019 and \$1,545.1 million at December 31, 2018. In 2019, Cal Water issued \$400.0 million of First Mortgage Bonds in a private placement and repaid \$405.6 million for First Mortgage Bonds that matured or were redeemed in 2019 and other long-term debt obligations. In future periods, the Company intends to issue common stock and long-term debt to finance our operations. The capitalization ratios will vary depending upon the method we choose to finance our operations.

At December 31, capitalization ratios were:

	2019	2018
Common equity	49.1 %	47.3 %
Long-term debt	50.9 %	52.7 %

The return (from both regulated and non-regulated operations) on average common equity was 8.36% in 2019 compared to 9.18% in 2018. Cal Water does not include construction work in progress in its regulated rate base; instead, Cal Water was authorized to record AFUDC on construction work in progress, effective January 1, 2017. Construction work in progress for Cal Water was \$231.1 million at December 31, 2019 and \$199.1 million at December 31, 2018.

Acquisitions

In 2019 and 2018 there were no significant acquisitions.

Real Estate Program

We own real estate. From time to time, certain parcels are deemed no longer used or useful for water utility operations. Most surplus properties have a low cost basis. We developed a program to realize the value of certain surplus properties through sale or lease of those properties. The program will be ongoing for a period of several years. There were no significant sales in 2019 and 2018 and a pre-tax gain of \$0.6 million in 2017. As sales are dependent on real estate market conditions, future sales, if any, may or may not be at prior year levels.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We do not participate in hedge arrangements, such as forward contracts, swap agreements, options, or other contractual agreements to mitigate the impact of market fluctuations on our assets, liabilities, production, or contractual commitments. We operate only in the United States and, therefore, are not subject to foreign currency exchange rate risks.

Interest Rate Risk

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

Over the next 12 months, approximately \$21.9 million of the \$808.6 million of existing long-term debt instruments will mature or require sinking fund payments. Applying a hypothetical 10 percent increase in the rate of interest charged on those borrowings would not have a material effect on our earnings.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
California Water Service Group
San Jose, California

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of California Water Service Group and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, common stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impact of Rate Regulation on the Financial Statements - Refer to Note 2 to the financial statements

Critical Audit Matter Description

The Company is subject to rate regulation by the California Public Utilities Commission (“the Commission”), which has jurisdiction with respect to the rates of water and wastewater service companies in California. Management has determined it meets the requirements under accounting principles generally accepted in the United States of America to prepare its financial statements applying the specialized rules to account for the effects of cost-based rate regulation. Accounting for the economics of rate regulation impacts multiple financial statement line items and disclosures, such as utility plant; regulatory assets and liabilities; operating revenues; operation and maintenance expense; and depreciation expense.

The Commission establishes rates that are designed to permit the recovery of the cost of service and a return on investment. The Company’s rates are subject to regulatory rate-setting processes including a General Rate Case proceeding. The Company capitalizes and records regulatory assets for costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. If costs expected to be incurred in the future are currently being recovered through rates, the Company records those expected future costs as regulatory liabilities. Determining probability requires significant judgment by management and includes, but is not limited to, consideration of testimony presented in regulatory hearings, proposed regulatory decisions, final regulatory orders, and the strength or status of applications for rehearing or state court appeals. If the Company determines that a portion of the assets used in utility operations are not recoverable in customer rates, the Company would be required to recognize the loss of the assets disallowed.

We identified the impact of rate regulation as a critical audit matter due to the significant judgments that underlie the Company’s regulatory account balances and disclosures and the high degree of subjectivity involved in assessing the impact of regulatory decisions on the financial statements. Management judgments include interpreting the intent of the Commission’s decisions when appropriately measuring related regulatory assets or liabilities and assessing the probability of (1) recovery in future rates of incurred costs and (2) the requirement to refund amounts to customers. Given that management’s accounting judgements are based on assumptions about the outcome of future regulatory decisions and interpretation of new or revised regulatory decisions, auditing these judgments required specialized knowledge of accounting for rate regulation and the rate setting process due its inherent complexities and pervasive impact on the financial statements.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the interpretation of new or revised, and the uncertainty of future, regulatory hearings, proposed regulatory decisions, final regulatory orders, and the strength or status of applications for rehearing or state court appeals included the following, among others:

- We tested the effectiveness of management’s controls over the determination of regulatory assets or liabilities and the evaluation of the likelihood of (1) the recovery in future rates of costs incurred as property, plant, and equipment and deferred as regulatory assets, and (2) a refund or a future reduction in rates that should be reported as regulatory liabilities. We also tested the effectiveness of management’s controls over the initial recognition of amounts as utility plant; regulatory assets or liabilities; and the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates or of a future reduction in rates.
- We read regulatory orders issued by the Commission for the Company, regulatory statutes, interpretations, procedural memorandums, filings made by interveners, and other publicly available information to evaluate management’s interpretation of the accounting impacts of any new or revised regulatory decisions and their impact on measuring related regulatory assets and liabilities. We evaluated the external information and compared to management’s recorded regulatory asset and liability balances for completeness.

- We obtained supporting documentation (such as letters or memorandums) from management, and internal and external legal counsel, as appropriate, regarding probability of recovery for regulatory assets or refund or future reduction in rates for regulatory liabilities not yet addressed in a regulatory order to assess management's assertion that amounts are probable of recovery or a future reduction in rates.
- We obtained supporting documentation from management regarding their interpretation of the intent of Commission decisions and evaluated management's assumptions and methodologies used in measuring regulatory assets and liabilities for compliance with the related orders. We reconciled the underlying data or inputs used in the measurement to rate decisions approved by the Commission and tested the mathematical accuracy of the calculations.
- We evaluated the Company's disclosures related to the impacts of rate regulation, including the balances recorded and regulatory developments.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
February 27, 2020

We have served as the Company's auditor since 2008.

CALIFORNIA WATER SERVICE GROUP

Consolidated Balance Sheets

	December 31,	
	2019	2018
	(In thousands, except per share data)	
ASSETS		
Utility plant:		
Land	\$ 45,047	\$ 44,019
Depreciable plant and equipment	3,235,415	2,950,424
Construction work in progress	245,169	210,260
Intangible assets	24,854	24,743
Total utility plant	3,550,485	3,229,446
Less accumulated depreciation and amortization	(1,144,115)	(996,723)
Net utility plant	2,406,370	2,232,723
Current assets:		
Cash and cash equivalents	42,653	47,176
Receivables: net of allowance for doubtful accounts of \$771 and \$757 in 2019 and 2018, respectively		
Customers	32,058	30,037
Regulatory balancing accounts	38,225	42,394
Other	14,187	17,101
Unbilled revenue	34,879	33,427
Materials and supplies at weighted average cost	7,745	6,586
Taxes, prepaid expenses, and other assets	14,965	11,981
Total current assets	184,712	188,702
Other assets:		
Regulatory assets	433,322	353,569
Goodwill	2,615	2,615
Other	84,289	60,095
Total other assets	520,226	416,279
TOTAL ASSETS	\$ 3,111,308	\$ 2,837,704
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$0.01 par value; 68,000 shares authorized, 48,532 and 48,065 outstanding in 2019 and 2018, respectively	\$ 485	\$ 481
Additional paid-in capital	362,275	337,623
Retained earnings	417,146	392,053
Total common stockholders' equity	779,906	730,157
Long-term debt, net	786,754	710,027
Total capitalization	1,566,660	1,440,184
Current liabilities:		
Current maturities of long-term debt, net	21,868	104,911
Short-term borrowings	175,100	65,100
Accounts payable	108,463	95,580
Regulatory balancing accounts	4,462	12,213
Accrued other taxes	4,445	4,182
Accrued interest	5,810	5,674
Other accrued liabilities	38,573	33,506
Total current liabilities	358,721	321,166
Unamortized investment tax credits	1,575	1,649
Deferred income taxes	222,590	213,033
Regulatory liabilities	211,413	211,275
Pension and postretirement benefits other than pensions	258,907	193,538
Advances for construction	191,062	186,342
Contributions in aid of construction	241,537	225,270
Other long-term liabilities	58,843	45,247
Commitments and contingencies		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 3,111,308	\$ 2,837,704

See accompanying Notes to Consolidated Financial Statements.

CALIFORNIA WATER SERVICE GROUP

Consolidated Statements of Income

	For the Years Ended December 31,		
	2019	2018	2017
	(In thousands, except per share data)		
Operating revenue	\$ 714,557	\$ 698,196	\$ 676,113
Operating expenses:			
Operations:			
Purchased water	212,461	207,103	199,081
Purchased power	31,362	31,080	28,862
Pump taxes	11,518	14,664	13,924
Administrative and general	108,617	100,781	93,326
Other operations	90,061	79,868	74,448
Maintenance	26,834	24,494	22,530
Depreciation and amortization	89,220	83,781	76,783
Income taxes	16,280	18,589	35,279
Property and other taxes	28,792	27,296	24,797
Total operating expenses	615,145	587,656	569,030
Net operating income	99,412	110,540	107,083
Other income and expenses:			
Non-regulated revenue	19,205	18,272	15,898
Non-regulated expenses	(13,869)	(22,787)	(9,390)
Other components of net periodic benefit cost	(5,733)	(9,308)	(9,588)
Allowance for equity funds used during construction	6,685	3,954	3,750
Gain on sale of non-utility property	28	50	663
Income tax (expense) benefit on other income and expenses	(1,391)	2,717	(1,548)
Net other income (loss)	4,925	(7,102)	(215)
Interest expense:			
Interest expense	44,891	39,917	36,288
Allowance for borrowed funds used during construction	(3,670)	(2,063)	(2,360)
Net interest expense	41,221	37,854	33,928
Net income	\$ 63,116	\$ 65,584	\$ 72,940
Earnings per share:			
Basic	\$ 1.31	\$ 1.36	\$ 1.52
Diluted	\$ 1.31	\$ 1.36	\$ 1.52
Weighted average number of common shares outstanding:			
Basic	48,168	48,060	48,009
Diluted	48,168	48,060	48,009

See accompanying Notes to Consolidated Financial Statements.

CALIFORNIA WATER SERVICE GROUP

Consolidated Statements of Common Stockholders' Equity

For the Years Ended December 31, 2019, 2018 and 2017

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
	(In thousands)				
Balance at December 31, 2016	47,965	\$ 480	\$ 334,856	\$ 324,135	\$ 659,471
Net income				72,940	72,940
Issuance of common stock	88	1	2,877		2,878
Repurchase of common stock	(41)	(1)	(1,504)		(1,505)
Dividends paid on common stock (\$0.720 per share)				(34,563)	(34,563)
Balance at December 31, 2017	48,012	480	336,229	362,512	699,221
Net income				65,584	65,584
Issuance of common stock	95	1	3,039		3,040
Repurchase of common stock	(42)	—	(1,645)		(1,645)
Dividends paid on common stock (\$0.750 per share)				(36,043)	(36,043)
Balance at December 31, 2018	48,065	481	337,623	392,053	730,157
Net income				63,116	63,116
Issuance of common stock	515	5	27,148		27,153
Repurchase of common stock	(48)	(1)	(2,496)		(2,497)
Dividends paid on common stock (\$0.790 per share)				(38,023)	(38,023)
Balance at December 31, 2019	48,532	\$ 485	\$ 362,275	\$ 417,146	\$ 779,906

See accompanying Notes to Consolidated Financial Statements.

CALIFORNIA WATER SERVICE GROUP

Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Operating activities:			
Net income	\$ 63,116	\$ 65,584	\$ 72,940
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	91,288	85,707	78,592
Amortization of debt premium and expenses	744	1,099	920
Changes in normalized deferred income taxes	15,346	20,909	21,087
Change in value of life insurance contracts	(5,104)	2,334	(3,058)
Allowance for equity funds used during construction	(6,685)	(3,954)	(3,750)
Stock-based compensation	6,731	3,141	3,118
Gain on sale of non-utility properties	(28)	(50)	(663)
Write-off of capital costs	698	410	1,293
Changes in operating assets and liabilities:			
Receivables	(4,580)	20,422	(31,871)
Unbilled revenue	(1,452)	(3,671)	(4,528)
Taxes, prepaid expenses, and other assets	(3,545)	(587)	(3,718)
Accounts payable	10,719	4,701	1,564
Other current liabilities	1,282	(4,382)	2,164
Other changes in noncurrent assets and liabilities	264	(12,644)	13,752
Net cash provided by operating activities	168,794	179,019	147,842
Investing activities:			
Utility plant expenditures	(273,770)	(271,707)	(259,194)
Proceeds from sale of non-utility assets	28	59	666
TCP settlement proceeds	—	—	56,004
Life insurance benefits	—	3,491	1,558
Purchase of life insurance	(2,216)	(4,925)	(5,605)
Net cash used in investing activities	(275,958)	(273,082)	(206,571)
Financing activities:			
Short-term borrowings	260,000	151,000	265,000
Repayment of short-term borrowings	(150,000)	(361,000)	(87,000)
Issuance of long-term debt, net of debt issuance costs of \$1,796 for 2019, \$617 for 2018, \$0 for 2017	398,204	299,383	—
Advances and contributions in aid of construction	27,774	18,612	21,369
Refunds of advances for construction	(7,566)	(7,297)	(8,378)
Retirement of long-term debt	(405,568)	(16,532)	(26,829)
Repurchase of common stock	(2,497)	(1,645)	(1,505)
Issuance of common stock	20,423	—	—
Dividends paid	(38,023)	(36,043)	(34,563)
Net cash provided by financing activities	102,747	46,478	128,094
Change in cash, cash equivalents, and restricted cash	(4,417)	(47,585)	69,365
Cash, cash equivalents, and restricted cash at beginning of year	47,715	95,300	25,935
Cash, cash equivalents, and restricted cash at end of year	\$ 43,298	\$ 47,715	\$ 95,300
Supplemental disclosures of cash flow information:			
Cash paid (received) during the year for:			
Interest (net of amounts capitalized)	\$ 40,980	\$ 35,941	\$ 32,223
Income tax refunds	—	—	(1,697)
Supplemental disclosure of investing and financing non-cash activities:			
Accrued payables for investments in utility plant	40,794	38,807	41,017
Utility plant contributed by developers	16,288	20,609	19,898
Litigation proceeds for TCP and MTBE contamination reclassified from liability to depreciable plant and equipment	13,968	32,315	2,420

See accompanying Notes to Consolidated Financial Statements.

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements
December 31, 2019, 2018, and 2017
Dollar amounts in thousands unless otherwise stated

1 ORGANIZATION AND OPERATIONS

California Water Service Group (Company) is a holding company that provides water utility and other related services in California, Washington, New Mexico, and Hawaii through its wholly-owned subsidiaries. California Water Service Company (Cal Water), Washington Water Service Company (Washington Water), New Mexico Water Service Company (New Mexico Water), and Hawaii Water Service Company, Inc. (Hawaii Water) provide regulated utility services under the rules and regulations of their respective state's regulatory commissions (jointly referred to as the Commissions). CWS Utility Services 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 consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the Company's accounts and those of its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated from the consolidated financial statements. In the opinion of management, the consolidated financial statements reflect all adjustments that are necessary to provide a fair presentation of the results for the periods covered.

The preparation of the Company's consolidated 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 consolidated 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, utility plant useful lives, 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.

Subsequent to the issuance of the Company's Consolidated Financial Statements for the year ended December 31, 2017, the Company identified an immaterial computational error related to the amount of authorized revenue recorded pursuant to the Company's pension and health cost balancing accounts. The Company corrected the error in the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. For additional information regarding the error and its correction, please refer to Note 17 of the Notes to Consolidated Financial Statements included in that report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operating Revenue

The following table disaggregates the Company's operating revenue by source for the years ended December 31, 2019, 2018, and 2017:

	2019	2018	2017
Revenue from contracts with customers	\$ 664,358	\$ 674,736	\$ 622,474
Regulatory balancing account revenue	50,199	23,460	53,639
Total operating revenue	<u>\$ 714,557</u>	<u>\$ 698,196</u>	<u>\$ 676,113</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.

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
December 31, 2019, 2018, and 2017
Dollar amounts in thousands unless otherwise stated

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 "other accrued liabilities" on the consolidated balance sheets, is inconsequential.

In the following table, revenue from contracts with customers is disaggregated by class of customers for the years ended December 31, 2019, 2018, and 2017:

	2019	2018	2017
Residential	\$ 446,323	\$ 450,062	\$ 415,893
Business	129,223	130,041	118,279
Industrial	31,857	34,236	28,905
Public authorities	33,862	34,511	31,671
Other*	23,093	25,886	27,726
Total revenue from contracts with customers	<u>\$ 664,358</u>	<u>\$ 674,736</u>	<u>\$ 622,474</u>

* Other includes 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. These mechanisms include the following:

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), Conservation Balancing Account, Pension Cost Balancing Account, and Health Cost Balancing Account, generally 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.

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
December 31, 2019, 2018, and 2017
Dollar amounts in thousands unless otherwise stated

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Regulated Revenue

The following tables disaggregate the Company's non-regulated revenue by source for the years ended December 31, 2019, 2018, and 2017:

	2019	2018	2017
Operating and maintenance revenue	\$ 12,655	\$ 10,392	\$ 8,621
Other non-regulated revenue	4,271	5,413	5,262
Non-regulated revenue from contracts with customers	\$ 16,926	\$ 15,805	\$ 13,883
Lease revenue	2,279	2,467	2,015
Total non-regulated revenue	<u>\$ 19,205</u>	<u>\$ 18,272</u>	<u>\$ 15,898</u>

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 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
2020	\$ 2,772
2021	2,012
2022	1,211
2023	725
2024	411
Thereafter	585

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts receivable. The allowance is based upon specific identified accounts plus an estimate of uncollectible accounts based upon historical percentages. The balance of customer receivables is net of the allowance for doubtful accounts of \$0.8 million as of December 31, 2019, 2018 and 2017.

The activities in the allowance for doubtful accounts were as follows:

	2019	2018	2017
Beginning Balance	\$ 757	\$ 773	\$ 830
Provision for uncollectible accounts	1,664	1,703	1,570
Net write off of uncollectible accounts	(1,650)	(1,719)	(1,627)
Ending Balance	<u>\$ 771</u>	<u>\$ 757</u>	<u>\$ 773</u>

Other Receivables

As of December 31, 2019 and 2018, other receivables were:

	2019	2018
Accounts receivable from developers	\$ 6,299	\$ 9,633
Other	7,888	7,468
Total other receivables	<u>\$ 14,187</u>	<u>\$ 17,101</u>

Utility Plant

Utility plant is carried at original cost when first constructed or purchased, or at fair value when acquired through acquisition. When depreciable plant is retired, the cost is eliminated from utility plant accounts and such costs are charged against accumulated depreciation. Maintenance of utility plant is charged to operating expenses as incurred. Maintenance projects are not accrued for in advance.

Intangible assets acquired as part of water systems purchased are recorded at fair value. All other intangibles have been recorded at cost and are amortized over their useful life.

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

	2019	2018
Equipment	\$ 726,475	\$ 643,581
Office buildings and other structures	281,462	267,948
Transmission and distribution plant	2,227,478	2,038,895
Total	<u>\$ 3,235,415</u>	<u>\$ 2,950,424</u>

Depreciation of utility plant is computed on a straight-line basis over the assets' estimated useful lives including cost of removal of certain assets as follows:

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

The provision for depreciation expressed as a percentage of the aggregate depreciable asset balances was 2.96% in 2019, 3.02% in 2018, and 3.00% in 2017.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

AFUDC

The AFUDC represents the capitalized cost of funds used to finance the construction of the utility plant. In general, AFUDC is applied to Cal Water construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction, contributions in aid of construction, or applicable state-revolving fund loans. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated.

The amount of AFUDC related to equity funds and to borrowed funds for 2019, 2018, and 2017 are shown in the table below:

	2019	2018	2017
Allowance for equity funds used during construction	\$ 6,685	\$ 3,954	\$ 3,750
Allowance for borrowed funds used during construction	3,670	2,063	2,360
Total	<u>\$ 10,355</u>	<u>\$ 6,017</u>	<u>\$ 6,110</u>

Asset Retirement Obligation

The Company has a legal obligation to retire wells in accordance with State Water Resources Control Board regulations. In addition, upon decommission of a wastewater plant or lift station certain wastewater infrastructure would need to be retired in accordance with State Water Resources Control Board regulations. An asset retirement cost and corresponding retirement obligation is recorded when a well or waste water infrastructure is placed into service. As of December 31, 2019 and 2018, the retirement obligation is estimated to be \$25.6 million and \$24.3 million, respectively. The change only impacted the consolidated balance sheets as the Company recognizes a regulatory asset or liability for the timing differences between the recognition of expenses and costs recovered through the ratemaking process.

Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents include highly liquid investments with remaining maturities of three months or less at the time of acquisition. In 2019 and 2018, restricted cash includes \$0.6 million and \$0.5 million, respectively, of proceeds collected through a surcharge on certain customers' bills plus interest earned on the proceeds and is used to service California Safe Drinking Water Bond obligations.

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

	December 31, 2019	December 31, 2018
Cash and cash equivalents	42,653	47,176
Restricted cash (included in "taxes, prepaid expenses, and other assets")	645	539
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	<u>\$ 43,298</u>	<u>\$ 47,715</u>

Regulatory Assets and Liabilities

Because the Company operates almost exclusively in a regulated business, the Company is subject to the accounting standards for regulated utilities. The Commissions in the states in which the Company operates establish rates that are designed to permit the recovery of the cost of service and a return on investment. The Company capitalizes and records regulatory assets for costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. Regulatory assets are amortized over the future periods that the costs are expected to be recovered. If costs expected to be incurred in the future are currently being recovered through rates, the Company records those expected future costs as regulatory liabilities. In general, the Company does not earn a return on regulatory assets if the related costs do not accrue interest. Accordingly, the Company earns a return only on its regulatory assets for net WRAM and MCBA, pension cost balancing account, health cost balancing account, and interim rates receivable. In addition, the Company records regulatory liabilities when the Commissions require a refund to be made to the Company's customers over future periods.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Determining probability requires significant judgment by management and includes, but is not limited to, consideration of testimony presented in regulatory hearings, proposed regulatory decisions, final regulatory orders, and the strength or status of applications for rehearing or state court appeals.

If the Company determines that a portion of the Company's assets used in utility operations is not recoverable in customer rates, the Company would be required to recognize the loss of the assets disallowed.

Cal Water submitted its 2018 GRC with the CPUC in July of 2019. As of February 27, 2020, the GRC approval is still pending.

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

	Recovery Period	2019	2018
<i>Regulatory Assets</i>			
Pension and retiree group health	Indefinitely	\$ 208,321	\$ 156,947
Property-related temporary differences (tax benefits flowed through to customers)	Indefinitely	104,931	99,376
Other accrued benefits	Indefinitely	20,030	20,588
Net WRAM and MCBA long-term accounts receivable	1-2 years	25,465	17,134
Asset retirement obligations, net	Indefinitely	19,567	18,197
Interim rates long-term accounts receivable	1 year	4,642	4,642
Tank coating	10 years	13,535	11,196
Recoverable property losses	10 years	5,000	1,275
Pension cost balancing account	1 year	21,465	16,494
Other components of net periodic benefit cost	Indefinitely	5,145	3,221
Other regulatory assets	Various	5,221	4,499
Total Regulatory Assets		\$ 433,322	\$ 353,569
<i>Regulatory Liabilities</i>			
Future tax benefits due to customers		\$ 194,501	\$ 180,205
Health cost balancing account		4,271	3,516
Conservation program		2,742	6,880
Net WRAM and MCBA long-term payable		211	222
Tax accounting memorandum account		806	5,039
Cost of capital memorandum account		151	2,834
1,2,3 trichloropropane settlement proceeds		8,426	12,142
Other regulatory liabilities		305	437
Total Regulatory Liabilities		\$ 211,413	\$ 211,275

The Company's pension and postretirement health care benefits regulatory asset represents the unfunded obligation of the Company's pension and postretirement benefit plans which the Company expects to recover from customers in the future for these plans. These plans are discussed in further detail in Note 11. The pension cost balancing account regulatory asset and the health cost balancing account regulatory liability represent incurred pension and healthcare costs that exceeded/was below the cost recovery in rates and is recoverable/refundable from/to customers. The other components of net periodic benefit cost regulatory asset are authorized by the Commissions and are probable for rate recovery through the capital program.

The property-related temporary differences are primarily due to: (i) the difference between book and federal income tax depreciation on utility plant that was placed in service before the regulatory Commissions adopted normalization for rate making purposes; and (ii) certain (state) deferred taxes for which flow through accounting continues to be applied to originating deferred

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

taxes. The regulatory asset will be recovered in rates in future periods as the tax effects of the temporary differences previously flowed-through to customers reverse.

Other accrued benefits are accrued benefits for vacation, self-insured workers' compensation, and directors' retirement benefits. The net WRAM and MCBA long-term accounts receivable is the under-collected portion of recorded revenues that are not expected to be collected from customers within 12 months.

The asset retirement obligation regulatory asset represents the difference between costs associated with asset retirement obligations and amounts collected in rates. Tank coating represents the maintenance costs for tank coating projects that are recoverable from customers.

The future tax benefits due to customers primarily resulted from federal tax law changes enacted by the federal Tax Cuts and Jobs Act (TCJA) on December 22, 2017. The TCJA reduced the federal corporate income tax rate from 35 percent to 21 percent beginning on January 1, 2018, and GAAP requires the Company to re-measure all existing deferred income tax assets and liabilities to reflect the reduction in the federal tax rate on the enactment date. The Company is working with state regulators to finalize the ratepayer refund process to ensure compliance with federal normalization rules.

The conservation program regulatory liability is for incurred conservation costs that were below the cost recovery in rates and is refundable to customers.

The tax accounting and cost of capital memorandum account regulatory liabilities are related to the estimated customer refunds due to changes in the federal income tax rate and to the March 22, 2018 cost of capital decision for Cal Water (see Item 1. Business - Rates and Regulation).

1,2,3 trichloropropane (TCP) settlement proceeds are discussed in Note 14.

Short-term regulatory assets and liabilities are excluded from the above table. The short-term regulatory assets for 2019 and 2018 were \$38.2 million and \$42.4 million, respectively. The short-term regulatory assets, as of December 31, 2019 and 2018, primarily consist of net WRAM and MCBA receivables. The short-term portion of regulatory liabilities for 2019 and 2018 were \$4.5 million and \$12.2 million, respectively. The short-term regulatory liabilities as of December 31, 2019, primarily consist of 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.

Impairment of Long-Lived Assets, Intangibles and Goodwill

The Company's long-lived assets include transmission and distribution plant, equipment, land, buildings, and intangible assets. Long-lived assets, other than land, are depreciated or amortized over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the assets may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner in which the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the uses of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, the Company estimates the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the assets, and compare that to the carrying value of the asset. If the carrying value is greater than the fair value, then an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value. The key variables that must be estimated include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties since they are forecasting future events. A variation in the assumptions used could lead to a different conclusion regarding the realizability of an asset and, thus could have a significant effect on the consolidated financial statements.

Goodwill is measured as the excess of the cost of an acquisition over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed. Goodwill is not amortized but instead is reviewed annually at November 30th for impairment or more frequently if impairment indicators arise. The impairment test is performed at the reporting unit level using a two- step, fair-value based approach. The first step determines the fair value of the reporting unit and compares it to the reporting unit's carrying value. If the fair value of the reporting unit is less than its carrying amount, a second step is performed to measure the amount of impairment loss, if any. The second step allocates the fair value of the reporting unit to the Company's tangible and intangible

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

assets and liabilities. This derives an implied fair value for the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized equal to the excess.

Long-Term Debt Premium, Discount and Expense

The premiums, discounts, and issuance expenses on long-term debt are amortized over the original lives of the related debt on a straight-line basis which approximates the effective interest method. Premiums paid on the early redemption of certain debt and the unamortized original issuance discount and expense are amortized over the life of new debt issued in conjunction with the early redemption. Amortization expense included in interest expense for 2019, 2018, and 2017 was \$0.7 million, \$1.1 million, and \$0.9 million, respectively.

Advances for Construction

Advances for construction consist of payments received from developers for installation of water production and distribution facilities to serve new developments. Advances are excluded from rate base for rate setting purposes. Annual refunds are made to developers without interest. Advances of \$191.1 million, and \$186.3 million at December 31, 2019 and 2018, respectively, will be refunded primarily over a 40-year period in equal annual amounts. Estimated refunds of advances are shown in the table below.

Year Ending December 31,	Refunds of Advances
2020	\$ 7,628
2021	7,627
2022	7,627
2023	7,627
2024	7,627
Thereafter	152,926
Total refunds	\$ 191,062

Contributions in Aid of Construction

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

Income Taxes

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

Historically the Commissions reduced revenue requirements for the tax effects of certain originating temporary differences and allowed recovery of these tax costs as the related temporary differences reverse. The Commissions have granted the Company rate increases to reflect the normalization of the tax benefits of the federal accelerated methods and available Investment Tax Credits (ITC) for all assets placed in service after 1980. ITCs are deferred and amortized over the lives of the related properties for book purposes. The CPUC sets rates utilizing the flow through method of accounting for state income taxes.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent to 1986, Advances for Construction and Contributions in Aid of Construction were taxable for federal income tax purposes. Subsequent to 1991, Advances for Construction and Contributions in Aid of Construction were subject to California income tax. Due to changes in the federal tax law in 1996 and the California tax law in 1997 only deposits for new services were taxable. In late 2000, federal regulations were further modified to exclude contributions of fire services from taxable income. With the enactment of the TCJA, all Advances for Construction and Contributions in Aid of Construction received from developers after December 22, 2017 became taxable for federal income tax purposes.

The accounting standards for accounting for uncertainty in income taxes allows the inclusion of interest and penalties related to uncertain tax positions as a component of income taxes. (see Note 10 - Income Taxes).

Workers' Compensation

For workers' compensation, the Company estimates the liability associated with claims submitted and claims not yet submitted based on historical data. Expenses for workers compensation insurance are included in rates on a pay-as-you-go basis. Therefore, a corresponding regulatory asset has been recorded.

Earnings per Share

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

	2019	2018	2017
	(In thousands, except per share data)		
Net income available to common stockholders	\$ 63,116	\$ 65,584	\$ 72,940
Weighted average common shares, basic	48,168	48,060	48,009
Weighted average common shares, dilutive	48,168	48,060	48,009
Earnings per share—basic	\$ 1.31	\$ 1.36	\$ 1.52
Earnings per share—diluted	\$ 1.31	\$ 1.36	\$ 1.52

Stock-based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award. The Company recognizes compensation expense on a straight-line basis over the requisite service period, which is the vesting period.

Comprehensive Income or Loss

Comprehensive income for all periods presented was the same as net income.

Accumulated Other Comprehensive Income

The Company did not have any accumulated other comprehensive income or loss transactions as of December 31, 2019 and 2018.

Adoption of New Accounting Standards in 2019

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Sheet 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 allowed 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.

New Accounting Standards Issued But Not Yet Adopted in 2019

In June of 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changed the impairment model for certain financial assets that have a contractual right to receive cash, including trade and loan receivables. The new model required recognition based upon an estimation of expected credit losses rather than recognition of losses when it is probable that they have been incurred. ASU 2016-13 was effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company adopted the standard utilizing the modified retrospective method for its trade receivables and unbilled revenue on January 1, 2020. Based on the composition of the Company's trade receivables and unbilled revenue, and expected future losses, the adoption of ASU 2016-13 is not expected to have a material impact on its consolidated financial statements.

In January of 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminated step 2 of goodwill impairment test, which required a hypothetical purchase price allocation to measure goodwill impairment. Under the new guidance, a goodwill impairment loss will be measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 was effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted for any impairment test performed on testing dates after January 1, 2017. The Company adopted the standard on January 1, 2020 and the adoption of the standard is not expected to have a material impact on its consolidated financial statements.

In August of 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure for Fair Value Measurement*, which modified the disclosure requirements on fair value measurements. The modifications in this update eliminated, amended, and added disclosure requirements for fair value measurements. ASU 2018-13 was effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. As required by the standard, the Company adopted the standard prospectively and retrospectively depending on the requirements of ASU 2018-13 on January 1, 2020. Since the Company does not have level 3 fair value measurements or transfers from level 1 and level 2 fair value measurements, the Company does not expect the adoption of the standard to have a material impact on its footnote disclosures.

In August of 2018, the FASB issued ASU No. 2018-14, an amendment to ASC 715, *Compensation - Retirement Benefits - General (subtopic 715-20) Disclosure Framework: Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosures required for defined benefit pension and other postretirement benefit plans. ASU 2018-14 removes disclosures that are no longer considered cost-beneficial, clarifies the specific requirements of certain disclosures and adds new disclosure requirements identified as relevant. The guidance is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. Upon adoption, the amendments will be applied on a retrospective basis. The Company is evaluating the requirements of the guidance to determine the impact on the Company's disclosures upon adoption.

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3 OTHER INCOME AND EXPENSES

The Company conducts various non-regulated activities as reflected in the table below:

	2019		2018		2017	
	Revenue	Expense	Revenue	Expense	Revenue	Expense
Operating and maintenance	\$ 12,655	\$ 13,791	\$ 10,392	\$ 11,895	\$ 8,621	\$ 8,847
Leases	2,279	35	2,467	135	2,015	182
Design and construction	1,745	1,612	1,273	1,202	1,918	1,635
Meter reading and billing	412	163	391	157	256	(6)
Interest income	92	—	133	—	68	—
Change in value of life insurance contracts (gain) loss	—	(5,104)	—	2,340	—	(3,057)
Other non-regulated income and expenses	2,022	3,372	3,616	7,058	3,020	1,789
Total	\$ 19,205	\$ 13,869	\$ 18,272	\$ 22,787	\$ 15,898	\$ 9,390

Operating and maintenance services and meter reading and billing services are provided for water and wastewater systems owned by private companies and municipalities. The agreements typically call for a fee-per-service or a flat-rate amount per month. Leases have been entered into with telecommunications companies for cellular phone antennas placed on the Company's property. Design and construction services are for the design and installation of water mains and other water infrastructure for others outside the Company's regulated service areas. Third-party insurance program gains and losses are included in other non-regulated income and expenses. The 2018 other non-regulated income and expenses included \$5.4 million of business development expenses.

4 INTANGIBLE ASSETS

As of December 31, 2019 and 2018, intangible assets that will continue to be amortized and those not amortized were:

	Weighted Average Amortization Period (years)	2019			2018		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortized intangible assets:							
Water pumping rights	usage	\$ 1,084	\$ 116	\$ 968	\$ 1,084	\$ 112	\$ 972
Water planning studies	13	18,476	12,950	5,526	18,364	11,899	6,465
Leasehold improvements and other	17	1,519	889	630	1,519	882	637
Total		\$ 21,079	\$ 13,955	\$ 7,124	\$ 20,967	\$ 12,893	\$ 8,074
Unamortized intangible assets:							
Perpetual water rights and other		\$ 3,776	\$ —	\$ 3,776	\$ 3,776	\$ —	\$ 3,776

Water pumping rights usage is the amount of water pumped from aquifers to be treated and distributed to customers.

For the year ended December 31, 2019, 2018, and 2017, amortization of intangible assets was \$1.5 million, \$1.7 million, \$1.6 million, respectively.

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4 INTANGIBLE ASSETS (Continued)

Estimated future amortization expense related to intangible assets are shown in the table below:

Year Ending December 31,	Estimated Future Amortization Expense Related to Intangible Assets
2020	\$ 958
2021	870
2022	747
2023	569
2024	446
Thereafter	3,534
Total	\$ 7,124

5 PREFERRED STOCK

On February 27, 2019, the Company filed with the Delaware Secretary of State a Certificate of Elimination of Series D Participating Preferred Stock, which returned the 221,000 shares that had previously been designated as Series D Preferred Stock but had never been issued to the status of preferred shares of the Company, without designation as to series.

The foregoing summary of the Certificate of Elimination is qualified in its entirety by reference to the full text of the Certificate of Elimination, a copy of which is attached as Exhibit 4.2.

6 COMMON STOCKHOLDERS' EQUITY

As of December 31, 2019 and 2018, 48,532,199 shares and 48,064,707 shares, respectively, of common stock were issued and outstanding.

Effective January 1, 2019, the Company implemented an Employee Stock Purchase Plan (ESPP). Under the ESPP, qualified employees are permitted to purchase the Company's common stock at 90% of the market value of the common stock on the specified stock purchase date. The ESPP is deemed compensatory and compensation costs will be accounted for under ASC 718, *Stock Compensation*. Employees' payroll deductions for common stock purchases may not exceed 10% of their salaries. Employees may purchase up to 2,000 shares per period provided that the value of the shares purchased in any calendar year may not exceed \$25,000, as calculated pursuant to the ESPP. The Company's recorded expense was \$0.2 million for 2019 and the Company has issued 35,281 shares of common stock related to the ESPP.

On October 31, 2019, the Company entered into an equity distribution agreement 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. From October 31, 2019 to December 31, 2019, the Company sold 381,105 shares of common stock through the at-the-market equity program and raised proceeds of \$19.3 million net of \$0.2 million in commissions paid under the equity distribution agreement. The Company also incurred \$0.5 million of equity issuance costs.

Dividend Reinvestment and Stock Repurchase Plan

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

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7 SHORT-TERM BORROWINGS

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.

The revolving credit facilities 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.

As of December 31, 2019 and 2018, the outstanding borrowings on the Company lines of credit were \$55.1 million. The borrowings on the Cal Water lines of credit were \$120.0 million and \$10.0 million as of December 31, 2019 and 2018, respectively. The average borrowing rate for borrowings on the Company and Cal Water lines of credit during 2019 was 3.23% compared to 2.91% for the same period last year.

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8 LONG-TERM DEBT

As of December 31, 2019 and 2018, long-term debt outstanding was:

	Series	Interest Rate	Maturity Date	2019	2018
First Mortgage Bonds	YYY	4.170%	2059	\$ 200,000	\$ —
	WWW	4.070%	2049	100,000	—
	VVV	3.400%	2029	100,000	—
	TTT	4.610%	2056	10,000	10,000
	SSS	4.410%	2046	40,000	40,000
	QQQ	3.330%	2025	50,000	50,000
	RRR	4.310%	2045	50,000	50,000
	PPP	5.500%	2040	100,000	100,000
	LL	5.875%	2019	—	100,000
	UUU	3-month LIBOR plus 70 basis points	2020	—	300,000
	AAA	7.280%	2025	20,000	20,000
	BBB	6.770%	2028	20,000	20,000
	CCC	8.150%	2030	20,000	20,000
	DDD	7.130%	2031	20,000	20,000
	EEE	7.110%	2032	20,000	20,000
	GGG	5.290%	2022	5,455	7,273
	HHH	5.290%	2022	5,455	7,273
	III	5.540%	2023	3,636	4,546
	OOO	6.020%	2031	20,000	20,000
	CC	9.860%	2020	16,700	16,800
Total First Mortgage Bonds				801,246	805,892
California Department of Water Resources Loans		3.0% to 7.0%	2019 - 39	5,604	5,830
Other long-term debt				6,465	6,978
Unamortized debt issuance costs				(4,693)	(3,762)
Total long-term debt, net of unamortized debt issuance costs				808,622	814,938
Less current maturities of long-term debt, net				21,868	104,911
Long-term debt, net				<u>\$ 786,754</u>	<u>\$ 710,027</u>

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.

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8 LONG-TERM DEBT (Continued)

On September 13, 2018, Cal Water sold \$300.0 million of floating rate First Mortgage Bonds UUU due in September of 2020 in a private placement. The floating interest rate was set at three-month LIBOR plus 70 basis points, accrued quarterly, and was payable in arrears. The bonds were redeemed at par during the second quarter of 2019. In 2019, Cal Water also repaid \$100.0 million of First Mortgage Bonds LL, which matured in 2019. In 2018, Cal Water repaid \$10.9 million of First Mortgage Bonds JJJ and LLL, which matured in 2018.

On October 4, 2011, Cal Water entered into a capital lease arrangement with the City of Hawthorne to operate the City's water system for a 15-year period. The \$5.2 million and \$5.8 million capital lease liability as of December 31, 2019 and 2018 is included in other long-term debt and current maturities set forth above.

9 OTHER ACCRUED LIABILITIES

As of December 31, 2019 and 2018, other accrued liabilities were:

	2019	2018
Accrued and deferred compensation	\$ 22,543	\$ 20,229
Accrued benefits and workers' compensation claims	6,241	5,896
Unearned revenue and customer deposit	2,024	1,915
Due to contracts and agencies	3,325	3,196
Current portion of operating lease	1,452	—
Other	2,988	2,270
Total other accrued liabilities	<u>\$ 38,573</u>	<u>\$ 33,506</u>

10 INCOME TAXES

Income tax expense (benefit) consisted of the following:

	Federal	State	Total
2019			
Current	\$ —	\$ 3	\$ 3
Deferred	15,582	2,086	17,668
Total	<u>\$ 15,582</u>	<u>\$ 2,089</u>	<u>\$ 17,671</u>
2018			
Current	\$ —	\$ 3	\$ 3
Deferred	15,995	(126)	15,869
Total	<u>\$ 15,995</u>	<u>\$ (123)</u>	<u>\$ 15,872</u>
2017			
Current	\$ —	\$ 3	\$ 3
Deferred	35,881	943	36,824
Total income tax	<u>\$ 35,881</u>	<u>\$ 946</u>	<u>\$ 36,827</u>

The Company's 2019, 2018 and 2017 qualified tax repairs and maintenance deductions totaled \$70.0 million, \$102.0 million, and \$85.9 million, respectively.

The total federal NOL carry-forward was \$57.3 million and the state of California NOL carry-forward was \$95.2 million as of December 31, 2019. Management has concluded that the NOL carry-forward amounts are more likely than not to be recovered and therefore require no valuation allowance. The loss and credit carry-forward will begin to expire in 2027.

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10 INCOME TAXES (Continued)

As of December 31, 2019, the California Enterprise Zone (EZ) credit was \$4.2 million net of federal tax benefit for qualified property purchased before January 1, 2015, and placed in service before January 1, 2016. The Company has carry-forward California EZ credits of \$2.2 million net of any unrecognized tax benefit. Unused State of California EZ credits can carry-forward until 2024.

The difference between the recorded and the statutory income tax expense is reconciled in the table below:

	2019	2018	2017
Statutory income tax	\$ 16,965	\$ 17,105	\$ 38,419
Increase (reduction) in taxes due to:			
State income taxes net of federal tax benefit	5,639	5,685	6,017
Effect of regulatory treatment of fixed asset differences	(3,696)	(5,954)	(4,584)
Investment tax credits	(74)	(74)	(74)
AFUDC equity	(1,870)	(1,106)	(1,528)
Share base stock compensation	302	(278)	(581)
Other	405	494	(842)
Total income tax	<u>\$ 17,671</u>	<u>\$ 15,872</u>	<u>\$ 36,827</u>

The effect of regulatory treatment of fixed asset differences includes estimated repair and maintenance deductions and asset related flow through items.

On December 22, 2017, the U.S. government enacted expansive tax legislation commonly referred to as the TCJA. Among other provisions, the TCJA reduces the federal income tax rate from 35 percent to 21 percent beginning on January 1, 2018 and eliminated bonus depreciation for utilities. The TCJA required the Company to re-measure all existing deferred income tax assets and liabilities to reflect the reduction in the federal tax rate. The Company adjusted and recorded the impacts of the TCJA in accordance with rules issued by the SEC in Staff Accounting Bulletin No. 118, for the re-measurement of deferred tax balances as of December 31, 2017.

A TCJA refund of \$108.0 million was recorded as a provisional estimate on December 31, 2017. During the year of 2019, the Company further analyzed its deferred tax balances, tax regulatory asset and tax regulatory liability. As a result, the TCJA refund was \$121.0 million, with gross up \$47.0 million, total regulatory liabilities for TCJA was \$168.0 million as of December 31, 2019. The Company continued working with state regulators to finalize the ratepayer net refund of \$121.0 million to ensure compliance with federal normalization rules. Changes in interpretations, guidance on legislative intent, and any changes in accounting standards for income taxes in response to the TCJA could impact the recorded amounts.

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10 INCOME TAXES (Continued)

The deferred tax assets and deferred tax liabilities as of December 31, 2019 and 2018, are presented in the following table:

	2019	2018
Deferred tax assets:		
Developer deposits for extension agreements and contributions in aid of construction	\$ 25,114	\$ 39,074
Net operating loss carryforward and tax credits	11,029	8,257
Pension liability	10,095	8,725
Income tax regulatory liability	47,196	44,072
Operating leases liabilities	4,024	—
Other	2,975	4,273
Total deferred tax assets	100,433	104,401
Deferred tax liabilities:		
Property related basis and depreciation differences	297,470	288,544
WRAM/MCBA and interim rates balancing accounts	17,771	26,348
Operating lease-right to use asset	4,030	—
Other	3,752	2,542
Total deferred tax liabilities	323,023	317,434
Net deferred tax liabilities	\$ 222,590	\$ 213,033

The developer deposits for extension agreements and contributions in aid of construction (CIAC) decreased as compared to 2018 due to the method change in extension agreement tax treatment. For extension agreements, all developer deposits for service are taxable prior to 2019 for both federal and CA income tax purposes. The Company filed a method change with the IRS and received approval in 2019 to treat the extension agreement receipt from developer as a loan effective January 1, 2019. The state of California conformed with the IRS method change. For CIAC, all receipts from developers are taxable after TCJA for federal tax purpose. Only receipts for services are taxable for the state of California.

A valuation allowance was not required at December 31, 2019 and 2018. Based on historical taxable income and future taxable income projections over the period in which the deferred assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the deductible differences.

The following table reconciles the changes in unrecognized tax benefits:

	December 31, 2019	December 31, 2018	December 31, 2017
Balance at beginning of year	\$ 9,716	\$ 11,058	\$ 10,499
Additions for tax positions taken during current year	1,292	1,787	559
Reduction to prior year tax position	—	(3,129)	—
Balance at end of year	\$ 11,008	\$ 9,716	\$ 11,058

The Company does not expect a material change in its unrecognized tax benefits within the next 12 months. The component of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2019, was \$3.1 million, with the remaining balance representing the potential deferral of taxes to later years.

The Company's federal income tax years subject to an examination are from 2013 to 2019 and the state income tax years subject to an examination are from 2012 to 2019.

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11 EMPLOYEE BENEFIT PLANS

Savings Plan

The Company sponsors a 401(k) qualified defined contribution savings plan that allows participants to contribute up to 20% of pre-tax compensation. Effective January 1, 2010, the Company matches 75 cents for each dollar contributed by the employee up to a maximum Company match of 6.0% of base salary. Company contributions were \$6.5 million, \$6.0 million, and \$5.6 million, for the years 2019, 2018, and 2017, respectively.

Pension Plans

The Company provides a qualified, defined-benefit, non-contributory pension plan for substantially all employees. The accumulated benefit obligations of the pension plan are \$615.5 million and \$492.4 million as of December 31, 2019 and 2018, respectively. The fair value of pension plan assets was \$573.6 million and \$469.8 million as of December 31, 2019 and 2018, respectively.

Prior to 2010, pension payment obligations were generally funded by the purchase of an annuity from a life insurance company. Beginning in 2010, the pension plan trust pays monthly benefits to retirees, rather than the purchase of an annuity.

The Company also maintains an unfunded, non-qualified, supplemental executive retirement plan (SERP). The unfunded SERP accumulated benefit obligations were \$71.8 million and \$56.8 million as of December 31, 2019 and 2018, respectively. Benefit payments under the supplemental executive retirement plan are paid currently.

Expected payments to be made for the pension and SERP plans are shown in the table below:

Year Ending December 31,	Pension	SERP	Total
2020	\$ 13,765	\$ 2,086	\$ 15,851
2021	15,332	2,196	17,528
2022	16,992	2,336	19,328
2023	18,749	2,416	21,165
2024	20,517	2,415	22,932
2025-2029	130,341	12,907	143,248
Total payments	\$ 215,696	\$ 24,356	\$ 240,052

The expected benefit payments are based upon the same assumptions used to measure the Company's benefit obligation at December 31, 2019, and include estimated future employee service.

The costs of the pension and retirement plans are charged to expense and utility plant. The Company makes annual contributions to fund the amounts accrued for pension cost.

Other Postretirement Plan

The Company provides substantially all active, permanent employees with medical, dental, and vision benefits through a self-insured plan. Employees retiring at or after age 58, along with their spouses and dependents, continue participation in the plan by payment of a premium. Plan assets are invested in mutual funds, short-term money market instruments and commercial paper based upon a similar asset mix to the pension plan. Retired employees are also provided with a \$10,000 dollar life insurance benefit.

The Company records the costs of postretirement benefits other than pensions (PBOP) during the employees' years of active service. Postretirement benefit expense recorded in 2019, 2018, and 2017, was \$7.9 million, \$8.8 million, and \$8.5 million, respectively. The remaining net periodic benefit cost was \$2.1 million at December 31, 2019, and is being recovered through future customer rates and is recorded as a regulatory asset.

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11 EMPLOYEE BENEFIT PLANS (Continued)

The expected benefit payments, net of retiree premiums and Medicare Part D subsidies, are shown in the table below.

Year Ending December 31,	Expected Benefit Payments Before Medicare Part D Subsidy	Effect of Medicare Part D Subsidy on Expected Benefit Payments	Expected Benefit Payments Net of Medicare Part D Subsidy
2020	\$ 3,305	\$ (267)	\$ 3,038
2021	3,645	(301)	3,344
2022	4,011	(336)	3,675
2023	4,417	(371)	4,046
2024	4,864	(404)	4,460
2025-2029	29,403	(2,656)	26,747
Total payments	\$ 49,645	\$ (4,335)	\$ 45,310

Benefit Plan Assets

The Company actively manages pensions and PBOP trust (Plan) assets. The Company's investment objectives are:

- Maximize the return on the assets, commensurate with the risk that the Company deems appropriate to meet the obligations of the Plans, minimize the volatility of the pension expense, and account for contingencies;
- Generate a rate of return for the total portfolio that equals or exceeds the actuarial investment rate assumption;

Additionally, the rate of return of the total fund is measured periodically against an index comprised of 35% of the Standard & Poor's Index, 15% of the Russell 2000 Index, 10% of the MSCI EAFE Index, and 40% of the Bloomberg Barclays U.S. Aggregate Bond Index. The index is consistent with the Company's rate of return objective and indicates the Company's long-term asset allocation objective.

The Company applies a risk management framework for managing the risks associated with employee benefit plan trust assets. The guiding principles of this risk management framework are the clear articulation of roles and responsibilities, appropriate delegation of authority, and proper accountability and documentation. Trust investment policies and investment manager guidelines include provisions to ensure prudent diversification, manage risk through appropriate use of physical direct asset holdings and derivative securities, and identify permitted and prohibited investments.

The Company's target asset allocation percentages for major categories of the pension plan are reflected in the table below:

	Minimum Exposure	Target	Maximum Exposure
Fixed Income	35 %	40 %	45 %
Total Domestic Equity:	40 %	50 %	60 %
Small/Mid Cap Stocks	10 %	15 %	20 %
Large Cap Stocks	30 %	35 %	45 %
Non-U.S. Equities	5 %	10 %	15 %

The fixed income category includes money market funds, short-term bond funds, and cash. The majority of fixed income investments range in maturities from less than 1 to 5 years.

The Company's target allocation percentages for the PBOP trust is similar to the pension plan.

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11 EMPLOYEE BENEFIT PLANS (Continued)

The Company uses the following criteria to select investment funds:

- Fund past performance;
- Fund meets criteria of Employee Retirements Income Security Act (ERISA);
- Timeliness and completeness of fund communications and reporting to investors;
- Stability of fund management company;
- Fund management fees; and
- Administrative costs incurred by the Plan.

Plan Fair Value Measurements

The fair value measurements standard establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

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.

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11 EMPLOYEE BENEFIT PLANS (Continued)

The following tables present the fair value of plan assets by major asset category at December 31, 2019 and 2018:

	December 31, 2019							
	Pension Benefits				Other Benefits			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 91,231	\$ —	\$ —	\$ 91,231	\$ 50,277	\$ —	\$ —	\$ 50,277
Domestic Equity: Small/Mid Cap Stocks	43,238	—	—	43,238	—	—	—	—
Domestic Equity: Large Cap Stocks	155,645	—	—	155,645	78,277	—	—	78,277
Non U.S. Equities	28,874	—	—	28,874	—	—	—	—
Assets measured at net asset value (NAV)				254,587				—
Total Plan Assets	<u>\$ 318,988</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 573,575</u>	<u>\$ 128,554</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 128,554</u>

	December 31, 2018							
	Pension Benefits				Other Benefits			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 188,934	\$ —	\$ —	\$ 188,934	\$ 45,446	\$ —	\$ —	\$ 45,446
Domestic Equity: Small/Mid Cap Stocks	68,843	—	—	68,843	—	—	—	—
Domestic Equity: Large Cap Stocks	165,862	—	—	165,862	57,179	—	—	57,179
Non U.S. Equities	46,135	—	—	46,135	—	—	—	—
Assets measured at NAV				—				—
Total Plan Assets	<u>\$ 469,774</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 469,774</u>	<u>\$ 102,625</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 102,625</u>

The pension benefits fixed income category includes \$8.9 million and \$5.0 million of money market fund investments as of December 31, 2019 and 2018, respectively. The other benefits fixed income category includes \$4.5 million and \$9.8 million of money market fund investments as of December 31, 2019 and 2018, respectively.

Assets measured at NAV include investments in commingled funds that are comprised of fixed income and equity securities. These commingled funds are not publicly traded, and therefore no publicly quoted market price is readily available. The values of the commingled funds are measured at estimated fair value, which is determined based on the unit value of the funds and have not been classified in the fair value hierarchy tables above. There are no restrictions on the terms and conditions upon which the investments may be redeemed.

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11 EMPLOYEE BENEFIT PLANS (Continued)

Changes in Plan Assets, Benefits Obligations, and Funded Status

The following table reconciles the funded status of the plans with the accrued pension liability and the net postretirement benefit liability as of December 31, 2019 and 2018:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Change in projected benefit obligation:				
Beginning of year	\$ 639,921	\$ 671,334	\$ 127,204	\$ 143,368
Service cost	26,718	29,027	7,475	8,317
Interest cost	26,966	23,994	5,441	4,873
Assumption change	122,779	(80,192)	13,695	(21,672)
Plan amendment	—	—	—	2,203
Experience loss (gain)	10,451	8,523	(1,994)	(8,226)
Benefits paid, net of retiree premiums	(14,806)	(12,765)	(1,306)	(1,659)
End of year	\$ 812,029	\$ 639,921	\$ 150,515	\$ 127,204
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 469,774	\$ 460,878	\$ 102,625	\$ 100,563
Actual return on plan assets	97,811	(22,576)	19,730	(4,320)
Employer contributions	20,796	44,237	7,505	8,041
Retiree contributions and Medicare part D subsidies	—	—	1,874	2,025
Benefits paid	(14,806)	(12,765)	(3,180)	(3,684)
Fair value of plan assets at end of year	\$ 573,575	\$ 469,774	\$ 128,554	\$ 102,625
Funded status(1)	\$ (238,454)	\$ (170,147)	\$ (21,961)	\$ (24,579)
Unrecognized actuarial loss	177,750	117,973	15,822	18,618
Unrecognized prior service cost	10,242	15,290	2,129	2,326
Net amount recognized	\$ (50,462)	\$ (36,884)	\$ (4,010)	\$ (3,635)

(1) The short-term portion of the pension benefits was \$2.1 million as of December 31, 2019 and \$1.9 million as of December 31, 2018 and is recorded as part of other accrued liabilities on the Company's 2019 and 2018 Consolidated Balance Sheets.

Amounts recognized on the balance sheet consist of:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Accrued benefit costs	\$ 62	\$ 62	\$ (2,441)	\$ (2,802)
Accrued benefit liability	(238,454)	(170,147)	(21,961)	(24,579)
Regulatory asset	187,930	133,201	20,392	23,746
Net amount recognized	\$ (50,462)	\$ (36,884)	\$ (4,010)	\$ (3,635)

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11 EMPLOYEE BENEFIT PLANS (Continued)
Valuation Assumptions

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

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Weighted average assumptions as of December 31:				
Discount rate	3.20 %	4.20 %	3.25 %	4.25 %
Long-term rate of return on plan assets	6.25 %	6.50 %	5.50 %	5.50 %
Rate of compensation increases - pension plan	3.25 %	3.25 %	—	—
Rate of compensation increases - SERP	3.75 %	3.75 %	—	—
Cost of living adjustment	2.50 %	2.50 %	—	—

The discount rate was derived from the FTSE Pension Discount Curve using the expected payouts for the plan. The long-term rate of return assumption is the expected rate of return on a balanced portfolio invested roughly 60% in equities and 40% in fixed income securities. Returns on equity investments were estimated based on estimates of dividend yield and real earnings added to a 2.50% long-term inflation rate. For the pension plans, the assumed returns were 7.25% for domestic equities and 8.56% for foreign equities. For the other benefits plan, the assumed returns was 6.88% for domestic equities. Returns on fixed-income investments were projected based on investment maturities and credit spreads added to a 2.50% long-term inflation rate. For the pension and other benefit plans, the assumed returns were 3.97% for fixed income investments and 2.34% for short-term cash investments. The average return for the pension and other benefit plans for the last 5 and 10 years was 9.60% and 8.60%, respectively. The Company is using a long-term rate of return of 6.25% for the pension plan and 5.50% for the other benefit plan, which is between the 25th and 75th percentile of expected results.

In 2019, the Company used the Society of Actuaries' Pri-2012 Total Dataset Mortality Tables for private-sector retirement plans in the United States and Mortality Improvement Scale (MP-2019) for measuring retirement plan obligations.

Components of Net Periodic Benefit Cost

Net periodic benefit costs for the pension and other postretirement plans for the years ended December 31, 2019 and 2018, included the following components:

	Pension Plan			Other Benefits		
	2019	2018	2017	2019	2018	2017
Service cost	\$ 26,718	\$ 29,027	\$ 23,801	\$ 7,475	\$ 8,317	\$ 7,152
Interest cost	26,966	23,994	23,256	5,441	4,873	4,988
Expected return on plan assets	(30,285)	(27,702)	(24,119)	(5,794)	(5,639)	(4,875)
Net amortization and deferral	10,975	16,233	12,962	758	1,281	1,186
Net periodic benefit cost	\$ 34,374	\$ 41,552	\$ 35,900	\$ 7,880	\$ 8,832	\$ 8,451

Service cost portion of the pension plan and other postretirement benefits is recognized in administrative and general within the 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 Consolidated Statements of Income.

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
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11 EMPLOYEE BENEFIT PLANS (Continued)

Below are the actuarial assumptions used in determining the net periodic benefit costs for the benefit plans, which uses the end of the prior year as the measurement date:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Weighted average assumptions as of December 31:				
Discount rate	4.20 %	3.60 %	4.25 %	3.65 %
Long-term rate of return on plan assets	6.50 %	6.50 %	5.50 %	5.50 %
Rate of compensation increases - pension plan	3.25 %	3.25 %	—	—
Rate of compensation increases - SERP	3.75 %	3.75 %	—	—
Cost of living adjustment	2.50 %	2.50 %		

The health care cost trend rate assumption has a significant effect on the amounts reported. For 2019 measurement purposes, the Company assumed a 7.0% annual rate of increase in the per capita cost of covered benefits with the rate decreasing to 5.3% by 2022, then gradually grading down to 4.3% over the next 50 years. A 1-percentage point change in assumed health care cost trends is estimated to have the following effect:

	1-Percentage Point Increase	1-Percentage Point (Decrease)
Effect on total service and interest costs	\$ 3,610	\$ (2,650)
Effect on accumulated postretirement benefit obligation	\$ 33,945	\$ (25,757)

The Company intends to make annual contributions that meet the funding requirements of ERISA. The Company estimates in 2020 that the annual contribution to the pension plans will be \$38.0 million and the annual contribution to the other postretirement plan will be \$7.5 million.

12 STOCK-BASED COMPENSATION PLANS

The Company's equity incentive plan was approved and amended by stockholders on April 27, 2005 and May 20, 2014. The Company is authorized to issue awards up to 2,000,000 shares of common stock.

The following table lists the number of annual RSAs granted and canceled in 2019 and 2018:

	2019	2018
RSAs granted	36,691	47,273
RSAs canceled	17,134	19,742

Officer RSAs granted in 2019 and 2018 vest over 36 months with the first year cliff vesting. Director RSAs generally vest at the end of 12 months. During 2019 and 2018, the RSAs granted were valued at \$52.83 and \$35.40 per share, respectively, based upon the fair market value of the Company's common stock on the date of grant.

The following table lists the number of performance-based RSUs granted, issued, and canceled in 2019 and 2018:

	2019	2018
RSUs granted	26,473	28,594
RSUs issued	62,726	48,753
RSUs canceled	31,177	24,009

Each award reflects a target number of common shares that may be issued to the award recipient. The 2019 and 2018 awards may be earned upon the completion of a 3-year performance period. Whether RSUs are earned at the end of the performance period will be determined based on the achievement of certain performance objectives set by the Board of Director Compensation

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12 STOCK-BASED COMPENSATION PLANS (Continued)

Committee in connection with the issuance of the RSUs. The performance objectives are based on the Company's business plan covering the performance period. The performance objectives include achieving the budgeted return on equity, budgeted investment in utility plant, customer service standards, employee safety standards and water quality standards. Depending on the results achieved during the 3-year performance period, the actual number of shares that a grant recipient receives at the end of the performance period may range from 0% to 200% of the target shares granted, provided that the grantee is continuously employed by the Company through the vesting date. If prior to the vesting date employment is terminated by reason of death, disability or normal retirement, then a pro rata portion of this award will vest. RSUs are not included in diluted shares until earned. The RSUs are recognized as expense ratably over the 3 year performance period using a fair market value of \$52.83 per share for the 2019 RSUs and \$35.40 per share for the 2018 RSUs based on an estimate of RSUs earned during the performance period.

The Company has recorded compensation costs for the RSAs and RSUs which are included in administrative and general operating expenses in the amount of \$6.5 million for 2019 and \$3.1 million for 2018 and 2017.

13 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 described in Note 11 - Employee Benefit Plans.

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.

December 31, 2019					
	Cost	Fair Value			Total
		Level 1	Level 2	Level 3	
Long-term debt, including current maturities, net	\$ 808,622	\$ —	\$ 873,454	\$ —	\$ 873,454
Advances for construction	191,062	—	79,550	—	79,550
Total	\$ 999,684	\$ —	\$ 953,004	\$ —	\$ 953,004

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

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14 COMMITMENTS AND CONTINGENCIES

Commitments

Water Supply Contracts

The Company has long-term commitments to purchase water from water wholesalers. The commitments are noted in the table below.

	Water Supply Contracts*
2020	\$ 34,550
2021	34,550
2022	34,551
2023	34,551
2024	34,549
Thereafter	604,342

* Estimated annual contractual obligations are based on the same payment levels as 2019.

Water Supply Contracts

The Company has a long-term contract with the Santa Clara Valley Water District that requires the Company to purchase minimum annual water quantities. Purchases are priced at the districts then-current wholesale water rate. The Company operates to purchase sufficient water to equal or exceed the minimum quantities under the contract. The total paid to Santa Clara Valley Water District was \$13.6 million in 2019, \$9.7 million in 2018, and \$9.1 million in 2017.

The Company also has a water supply contract with Stockton East Water District (SEWD) that requires a fixed monthly payment. Each year, the fixed monthly payment is adjusted for changes to SEWD's costs. The total paid under the contract was \$13.3 million in 2019, \$13.7 million in 2018, and \$14.1 million in 2017.

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

Three other parties, including the City of Bakersfield, are also obligated to purchase a total of 32,500 acre feet per year under separate agreements with the Agency. Further, the Agency has the right to proportionally reduce the water supply provided to all of the participants if it cannot produce adequate supplies. If any of the other parties does not use its allocation, that party is obligated to pay its contracted amount.

If any of the parties were to default on making payments of the Capital Facilities Charge, then the other parties are obligated to pay for the defaulting party's share on a pro-rata basis. If there is a payment default by a party and the remaining parties have to make payments, they are also entitled to a pro-rata share of the defaulting party's water allocation.

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

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
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14 COMMITMENTS AND CONTINGENCIES (Continued)

The total obligation of all parties, excluding the Company, is approximately \$82.4 million to the Agency. Based on the credit worthiness of the other participants, which are government entities, it is believed to be highly unlikely that the Company would be required to assume any other parties' obligations under the contract due to their default.

The Company pays a capital facilities charge and charges related to treated water that together total \$9.1 million annually, which equates to \$442.88 dollars per acre foot. Total treated water charge for 2019 was \$3.6 million. As treated water is being delivered, the Company will also be obligated for the Company's portion of the operating costs; that portion is currently estimated to be \$22.05 dollars per acre foot. The actual amount will vary due to variations from estimates, inflation, and other changes in the cost structure. Our overall estimated cost of \$442.88 dollars per acre foot is less than the estimated cost of procuring untreated water (assuming water rights could be obtained) and then providing treatment.

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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Notes to Consolidated Financial Statements (Continued)
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14 COMMITMENTS AND CONTINGENCIES (Continued)

Supplemental balance sheet information related to leases was as follows:

	As of December 31, 2019
<i>Operating leases</i>	
Other assets: Other	\$ 14,402
Other accrued liabilities	\$ 1,452
Other long-term liabilities	12,928
Total operating lease liabilities	<u>\$ 14,380</u>
<i>Finance leases</i>	
Depreciable plant and equipment	\$ 18,207
Accumulated depreciation and amortization	(9,644)
Net utility plant	<u>\$ 8,563</u>
Current maturities of long-term debt, net	\$ 680
Long-term debt, net	<u>5,205</u>
Total finance lease liabilities	<u>\$ 5,885</u>
<i>Weighted average remaining lease term</i>	
Operating leases	152 months
Finance leases	76 months
<i>Weighted average discount rate</i>	
Operating leases	3.7%
Finance leases	5.5%

The components of lease expense were as follows:

	2019
Operating lease cost	\$ 1,874
Finance lease cost:	
Amortization of right-of-use assets	\$ 1,210
Interest on lease liabilities	347
Total finance lease cost	<u>\$ 1,557</u>
Short-term lease cost	\$ 1,700
Variable lease cost	264
Total lease cost	<u>\$ 5,395</u>

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
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14 COMMITMENTS AND CONTINGENCIES (Continued)

Supplemental cash flow information related to leases was as follows:

	2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 1,820
Operating cash flows from finance leases	347
Financing cash flows from finance leases	672
Non-cash activities: right-of-use assets obtained in exchange for lease obligations:	
Operating leases	2,109
Finance leases	672

Maturities of lease liabilities as of December 31, 2019 are as follows:

Year Ending December 31,	Operating Leases	Finance Leases
2020	\$ 1,951	\$ 986
2021	1,734	987
2022	1,578	987
2023	1,459	1,506
2024	1,318	940
Thereafter	10,205	1,645
Total lease payments	\$ 18,245	\$ 7,051
Less imputed interest	\$ (3,865)	\$ (1,166)
Total	\$ 14,380	\$ 5,885

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:

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

Rent expense under the previous lease accounting standard for operating leases was \$2.0 million in 2018 and 2017.

Contingencies
Groundwater Contamination

The Company has undertaken litigation against third parties to recover past and future costs related to ground water 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 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

CALIFORNIA WATER SERVICE GROUP
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14 COMMITMENTS AND CONTINGENCIES (Continued)

for a risk-based consideration of contamination proceeds which exceed the costs of the remediation described above and may result in some sharing of proceeds with the shareholder, determined on a case by case basis. The CPUC has authorized various memorandum accounts that allow the Company to track significant litigation costs to request recovery of these costs in future filings and uses of proceeds to comply with CPUC's general policy.

As previously reported, Cal Water has filed with the City of Bakersfield, in the Superior Court of California, a lawsuit that names potentially PRPs, who manufactured and distributed products containing TCP in California. TCP has been detected in the ground water. The lawsuit seeks to recover treatment costs necessary to remove TCP. On December 20, 2017, Cal Water entered into an \$85.0 million settlement agreement and release of claims with the PRPs, in *California Water Service Company and City of Bakersfield v. The Dow Chemical Company, et al., Civil Case No. CIV-470999* (TCP Action). The TCP Action seeks damages and other relief related to the PRPs' alleged contamination of drinking water supply and water wells with the chemical TCP. The proceeds from the settlement, after payment of the legal fees, was \$56.0 million and will be used to reimburse a portion of the capital costs associated with Cal Water's remediation efforts related to such alleged TCP contamination. As of December 31, 2019, Cal Water has used \$47.6 million of the proceeds on remediation efforts related to the alleged TCP contamination. Under the terms of the Agreement, the PRPs are released from all claims regarding 47 of the 57 total claimed wells, and Cal Water agrees to file a dismissal with prejudice of the TCP Action. The PRPs are also released from future claims regarding TCP contamination of any other wells, unless and until Cal Water has installed granular activated carbon filtration systems or other then-approved Sate treatment technology for TCP on, or replaced, 36 wells due to TCP contamination. As of December 31, 2019, Cal Water believes the proceeds are non-taxable based upon its intent to reinvest them in qualifying assets.

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. The Company has recognized a liability of \$2.5 million for all known legal matters as of December 31, 2019 primarily due to potable water main leaks and other work related 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.

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15 QUARTERLY FINANCIAL DATA (UNAUDITED)

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

2019	First	Second	Third	Fourth
Operating revenue	\$ 126,111	\$ 179,031	\$ 232,537	\$ 176,878
Net operating income	476	27,013	51,567	20,356
Net (loss) income	(7,640)	16,996	42,424	11,336
Diluted (loss) earnings per share	(0.16)	0.35	0.88	0.24
Common stock market price range:				
High	55.05	54.56	57.48	56.49
Low	44.60	48.00	49.52	48.78
Dividends paid per common share	0.1975	0.1975	0.1975	0.1975
2018	First	Second	Third	Fourth
Operating revenue	\$ 134,553	\$ 174,938	\$ 221,288	\$ 167,417
Net operating income	9,836	26,839	47,329	26,536
Net (loss) income	(762)	14,805	36,173	15,368
Diluted (loss) earnings per share	(0.02)	0.31	0.75	0.32
Common stock market price range:				
High	45.85	41.65	42.95	49.07
Low	35.25	35.60	38.85	40.10
Dividends paid per common share	0.1875	0.1875	0.1875	0.1875

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Notes to Consolidated Financial Statements (Continued)
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16 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 December 31, 2019 and 2018, the Condensed Consolidating Statements of Income for the years ended December 31, 2019, 2018, and 2017, and the Condensed Consolidating Statements of Cash Flows for the years ended December 31, 2019, 2018, and 2017, of (i) California Water Service Group, the guarantor of the First Mortgage Bonds and the parent company; (ii) California Water Service Company, the issuer of the First Mortgage Bonds and a 100% owned consolidated subsidiary of California Water Service Group; and (iii) the other 100% owned non-guarantor consolidated subsidiaries of California Water Service Group. No other subsidiary of the Company guarantees the securities. The condensed consolidating statement of cash flows for the year ended December 31, 2017 reflects the retrospective adoption of ASU 2016-09, which affected California Water Service Company and the other subsidiaries. The Condensed Consolidating Statement of Income for the year ended December 31, 2017 reflects the retrospective adoption of ASU 2017-07, which affected California Water Service Company and the other subsidiaries.

CALIFORNIA WATER SERVICE GROUP
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16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2019

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
(In thousands)					
ASSETS					
Utility plant:					
Utility plant	\$ 1,318	\$ 3,332,331	\$ 224,033	\$ (7,197)	\$ 3,550,485
Less accumulated depreciation and amortization	(1,107)	(1,079,627)	(65,561)	2,180	(1,144,115)
Net utility plant	211	2,252,704	158,472	(5,017)	2,406,370
Current assets:					
Cash and cash equivalents	3,096	29,098	10,459	—	42,653
Receivables and unbilled revenue	—	114,999	4,350	—	119,349
Receivables from affiliates	25,803	3,621	209	(29,633)	—
Other current assets	90	20,615	2,005	—	22,710
Total current assets	28,989	168,333	17,023	(29,633)	184,712
Other assets:					
Regulatory assets	—	428,639	4,683	—	433,322
Investments in affiliates	777,170	—	—	(777,170)	—
Long-term affiliate notes receivable	30,060	—	—	(30,060)	—
Other assets	409	81,591	5,125	(221)	86,904
Total other assets	807,639	510,230	9,808	(807,451)	520,226
TOTAL ASSETS	\$ 836,839	\$ 2,931,267	\$ 185,303	\$ (842,101)	\$ 3,111,308
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders' equity	\$ 779,906	\$ 700,784	\$ 81,604	\$ (782,388)	\$ 779,906
Affiliate long-term debt	—	—	30,060	(30,060)	—
Long-term debt, net	—	786,310	444	—	786,754
Total capitalization	779,906	1,487,094	112,108	(812,448)	1,566,660
Current liabilities:					
Current maturities of long-term debt, net	—	21,732	136	—	21,868
Short-term borrowings	55,100	120,000	—	—	175,100
Payables to affiliates	—	6,115	23,518	(29,633)	—
Accounts payable	—	104,419	4,044	—	108,463
Accrued expenses and other liabilities	313	50,569	2,408	—	53,290
Total current liabilities	55,413	302,835	30,106	(29,633)	358,721
Unamortized investment tax credits	—	1,575	—	—	1,575
Deferred income taxes	1,520	217,847	3,243	(20)	222,590
Pension and postretirement benefits other than pensions	—	258,907	—	—	258,907
Regulatory and other long-term liabilities	—	262,859	7,397	—	270,256
Advances for construction	—	190,568	494	—	191,062
Contributions in aid of construction	—	209,582	31,955	—	241,537
TOTAL CAPITALIZATION AND LIABILITIES	\$ 836,839	\$ 2,931,267	\$ 185,303	\$ (842,101)	\$ 3,111,308

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16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2018

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
(In thousands)					
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	<u>305</u>	<u>2,083,365</u>	<u>154,153</u>	<u>(5,100)</u>	<u>2,232,723</u>
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	<u>25,303</u>	<u>173,376</u>	<u>15,476</u>	<u>(25,453)</u>	<u>188,702</u>
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	<u>761,118</u>	<u>408,373</u>	<u>7,976</u>	<u>(761,188)</u>	<u>416,279</u>
TOTAL ASSETS	<u>\$ 786,726</u>	<u>\$ 2,665,114</u>	<u>\$ 177,605</u>	<u>\$ (791,741)</u>	<u>\$ 2,837,704</u>
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	<u>730,157</u>	<u>1,368,784</u>	<u>107,504</u>	<u>(766,261)</u>	<u>1,440,184</u>
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	<u>55,224</u>	<u>261,117</u>	<u>30,278</u>	<u>(25,453)</u>	<u>321,166</u>
Unamortized investment tax credits	<u>—</u>	<u>1,649</u>	<u>—</u>	<u>—</u>	<u>1,649</u>
Deferred income taxes	<u>1,376</u>	<u>210,052</u>	<u>1,648</u>	<u>(43)</u>	<u>213,033</u>
Pension and postretirement benefits other than pensions	<u>—</u>	<u>193,538</u>	<u>—</u>	<u>—</u>	<u>193,538</u>
Regulatory and other long-term liabilities	<u>(31)</u>	<u>250,720</u>	<u>5,817</u>	<u>16</u>	<u>256,522</u>
Advances for construction	<u>—</u>	<u>185,843</u>	<u>499</u>	<u>—</u>	<u>186,342</u>
Contributions in aid of construction	<u>—</u>	<u>193,411</u>	<u>31,859</u>	<u>—</u>	<u>225,270</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$ 786,726</u>	<u>\$ 2,665,114</u>	<u>\$ 177,605</u>	<u>\$ (791,741)</u>	<u>\$ 2,837,704</u>

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
December 31, 2019, 2018, and 2017
Dollar amounts in thousands unless otherwise stated

16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2019

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
(In thousands)					
Operating revenue	\$ —	\$ 669,769	\$ 44,788	\$ —	\$ 714,557
Operating expenses:					
Operations:					
Purchased water	—	211,998	463	—	212,461
Purchased power	—	22,338	9,024	—	31,362
Pump taxes	—	11,518	—	—	11,518
Administrative and general	23	98,675	9,919	—	108,617
Other operations	—	83,148	7,496	(583)	90,061
Maintenance	—	25,720	1,114	—	26,834
Depreciation and amortization	94	83,183	6,025	(82)	89,220
Income tax (benefit) expense	(528)	14,677	1,273	858	16,280
Property and other taxes	—	25,601	3,191	—	28,792
Total operating (income) expenses	(411)	576,858	38,505	193	615,145
Net operating income	411	92,911	6,283	(193)	99,412
Other income and expenses:					
Non-regulated revenue	2,401	18,080	1,707	(2,983)	19,205
Non-regulated expenses	—	(12,526)	(1,343)	—	(13,869)
Other components of net periodic benefit cost	—	(5,559)	(174)	—	(5,733)
Allowance for equity funds used during construction	—	6,685	—	—	6,685
Gain on non-utility properties	—	28	—	—	28
Income tax expense on other income and expenses	(672)	(1,476)	(78)	835	(1,391)
Net other income	1,729	5,232	112	(2,148)	4,925
Interest:					
Interest expense	1,769	43,104	2,419	(2,401)	44,891
Allowance for borrowed funds used during construction	—	(3,408)	(262)	—	(3,670)
Net interest expense	1,769	39,696	2,157	(2,401)	41,221
Equity earnings of subsidiaries	62,745	—	—	(62,745)	—
Net income	\$ 63,116	\$ 58,447	\$ 4,238	\$ (62,685)	\$ 63,116

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
December 31, 2019, 2018, and 2017
Dollar amounts in thousands unless otherwise stated

16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2018

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
(In thousands)					
Operating revenue	\$ —	\$ 656,939	\$ 41,257	\$ —	\$ 698,196
Operating expenses:					
Operations:					
Purchased water	—	206,675	428	—	207,103
Purchased power	—	22,460	8,620	—	31,080
Pump taxes	—	14,664	—	—	14,664
Administrative and general	—	90,563	10,218	—	100,781
Other operations	—	73,521	6,930	(583)	79,868
Maintenance	—	23,573	921	—	24,494
Depreciation and amortization	94	78,601	5,173	(87)	83,781
Income tax (benefit) expense	(960)	17,678	948	923	18,589
Property and other taxes	—	24,190	3,106	—	27,296
Total operating (income) expenses	(866)	551,925	36,344	253	587,656
Net operating income	866	105,014	4,913	(253)	110,540
Other Income and Expenses:					
Non-regulated revenue	2,333	17,658	1,197	(2,916)	18,272
Non-regulated expenses	—	(22,122)	(665)	—	(22,787)
Other components of net periodic benefit cost	—	(8,886)	(422)	—	(9,308)
Allowance for equity funds used during construction	—	3,954	—	—	3,954
Gain on sale of non-utility properties	—	50	—	—	50
Income tax (expense) benefit on other income and expenses	(652)	2,616	(63)	816	2,717
Net other income (loss)	1,681	(6,730)	47	(2,100)	(7,102)
Interest:					
Interest expense	1,711	38,288	2,251	(2,333)	39,917
Allowance for borrowed funds used during construction	—	(1,909)	(154)	—	(2,063)
Net interest expense	1,711	36,379	2,097	(2,333)	37,854
Equity earnings of subsidiaries	64,748	—	—	(64,748)	—
Net income	\$ 65,584	\$ 61,905	\$ 2,863	\$ (64,768)	\$ 65,584

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
December 31, 2019, 2018, and 2017
Dollar amounts in thousands unless otherwise stated

16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2017

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
	(In thousands)				
Operating revenue	\$ —	\$ 635,604	\$ 40,509	\$ —	\$ 676,113
Operating expenses:					
Operations:					
Purchased water	—	198,682	399	—	199,081
Purchased power	—	21,021	7,841	—	28,862
Pump taxes	—	13,924	—	—	13,924
Administrative and general	—	83,163	10,163	—	93,326
Other operations	—	67,069	7,903	(524)	74,448
Maintenance	—	21,595	935	—	22,530
Depreciation and amortization	94	72,327	4,453	(91)	76,783
Income tax (benefit) expense	(498)	33,313	1,405	1,059	35,279
Property and other taxes	(4)	21,778	3,023	—	24,797
Total operating (income) expenses	(408)	532,872	36,122	444	569,030
Net operating income	408	102,732	4,387	(444)	107,083
Other Income and Expenses:					
Non-regulated revenue	1,985	14,608	1,814	(2,509)	15,898
Non-regulated expenses	—	(8,139)	(1,251)	—	(9,390)
Other components of net periodic benefit cost	—	(9,032)	(556)	—	(9,588)
Allowance for equity funds used during construction	—	3,750	—	—	3,750
Gain on sale of non-utility properties	—	663	—	—	663
Income tax expense on other income and expenses	(809)	(1,714)	(47)	1,022	(1,548)
Net other income (loss)	1,176	136	(40)	(1,487)	(215)
Interest:					
Interest expense	1,131	35,116	2,026	(1,985)	36,288
Allowance for borrowed funds used during construction	—	(2,319)	(41)	—	(2,360)
Net interest expense	1,131	32,797	1,985	(1,985)	33,928
Equity earnings of subsidiaries	72,487	—	—	(72,487)	—
Net income	\$ 72,940	\$ 70,071	\$ 2,362	\$ (72,433)	\$ 72,940

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
December 31, 2019, 2018, and 2017
Dollar amounts in thousands unless otherwise stated

16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
	(In thousands)				
Operating activities:					
Net income	\$ 63,116	\$ 58,447	\$ 4,238	\$ (62,685)	\$ 63,116
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity earnings of subsidiaries	(62,745)	—	—	62,745	—
Dividends received from Affiliates	38,023	—	—	(38,023)	—
Depreciation and amortization	94	85,175	6,101	(82)	91,288
Change in value of life insurance contract	—	(5,104)	—	—	(5,104)
Stock-based compensation	—	—	6,731	—	6,731
Gain on sale of non-utility properties	—	(28)	—	—	(28)
Changes in normalized deferred income taxes	—	15,346	—	—	15,346
Allowance for equity funds used during construction	—	(6,685)	—	—	(6,685)
Changes in operating assets and liabilities	321	1,883	220	—	2,424
Other changes in noncurrent assets and liabilities	6,632	(308)	(4,640)	22	1,706
Net cash provided by operating activities	45,441	148,726	12,650	(38,023)	168,794
Investing activities:					
Utility plant expenditures	—	(262,500)	(11,270)	—	(273,770)
Proceeds from sale of non-utility assets	—	28	—	—	28
Investment in affiliates	(19,294)	—	—	19,294	—
Change in affiliate advances	(4,379)	453	(174)	4,100	—
Issuance of affiliate short-term borrowings	(4,300)	—	—	4,300	—
Collection of affiliate long-term debt	1,963	—	—	(1,963)	—
Purchase of life insurance	—	(2,216)	—	—	(2,216)
Net cash used in investing activities	(26,010)	(264,235)	(11,444)	25,731	(275,958)
Financing Activities:					
Short-term borrowings	—	260,000	—	—	260,000
Repayment of short-term borrowings	—	(150,000)	—	—	(150,000)
Investment from affiliates	—	19,294	—	(19,294)	—
Change in affiliate advances	(17)	5,627	(1,510)	(4,100)	—
Proceeds from affiliate short-term borrowings	—	—	4,300	(4,300)	—
Repayment of affiliates long-term debt	—	—	(1,963)	1,963	—
Issuance of long-term debt, net of debt issuance costs	—	398,204	—	—	398,204
Retirement of long-term debt	—	(405,317)	(251)	—	(405,568)
Advances and contribution in aid of construction	—	27,005	769	—	27,774
Refunds of advances for construction	—	(7,565)	(1)	—	(7,566)
Issuance of common stock	20,423	—	—	—	20,423
Repurchase of common stock	(2,497)	—	—	—	(2,497)
Dividends paid to non-affiliates	(38,023)	—	—	—	(38,023)
Dividends paid to affiliates	—	(36,297)	(1,726)	38,023	—
Net cash (used in) provided by financing activities	(20,114)	110,951	(382)	12,292	102,747
Change in cash, cash equivalents, and restricted cash	(683)	(4,558)	824	—	(4,417)
Cash, cash equivalents, and restricted cash at beginning of period	3,779	34,239	9,697	—	47,715
Cash, cash equivalents, and restricted cash at end of year	\$ 3,096	\$ 29,681	\$ 10,521	\$ —	\$ 43,298

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
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Dollar amounts in thousands unless otherwise stated

16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
	(In thousands)				
Operating activities:					
Net income	\$ 65,584	\$ 61,905	\$ 2,863	\$ (64,768)	\$ 65,584
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity earnings of subsidiaries	(64,748)	—	—	64,748	—
Dividends received from Affiliates	36,043	—	—	(36,043)	—
Depreciation and amortization	94	80,442	5,258	(87)	85,707
Change in value of life insurance contract	—	2,334	—	—	2,334
Stock-based compensation	3,141	—	—	—	3,141
Gain on sale of non-utility properties	—	(50)	—	—	(50)
Changes in normalized deferred income taxes	—	20,909	—	—	20,909
Allowance for equity funds used during construction	—	(3,954)	—	—	(3,954)
Changes in operating assets and liabilities	(290)	16,943	(170)	—	16,483
Other changes in noncurrent assets and liabilities	(348)	(12,284)	1,390	107	(11,135)
Net cash provided by operating activities	39,476	166,245	9,341	(36,043)	179,019
Investing activities:					
Utility plant expenditures	—	(261,456)	(10,251)	—	(271,707)
Proceeds from sale of non-utility assets	—	59	—	—	59
Change in affiliate advances	(689)	19	53	617	—
Issuance of affiliate short-term borrowings	(23,700)	—	—	23,700	—
Collection of affiliate short-term debt	20,000	—	—	(20,000)	—
Collection of affiliate long-term debt	1,635	—	—	(1,635)	—
Life insurance benefits	—	3,491	—	—	3,491
Purchase of life insurance	—	(4,925)	—	—	(4,925)
Net cash used in investing activities	(2,754)	(262,812)	(10,198)	2,682	(273,082)
Financing Activities:					
Short-term borrowings	20,000	131,000	—	—	151,000
Repayment of short-term borrowings	(20,000)	(341,000)	—	—	(361,000)
Change in affiliate advances	17	(93)	693	(617)	—
Proceeds from affiliate short-term borrowings	20,000	—	3,700	(23,700)	—
Repayment of affiliates short-term debt	(20,000)	—	—	20,000	—
Repayment of affiliates long-term debt	—	—	(1,635)	1,635	—
Issuance of long-term debt, net of debt issuance costs	—	299,383	—	—	299,383
Retirement of long-term debt	—	(16,200)	(332)	—	(16,532)
Advances and contribution in aid of construction	—	18,218	394	—	18,612
Refunds of advances for construction	—	(7,279)	(18)	—	(7,297)
Repurchase of common stock	(1,645)	—	—	—	(1,645)
Dividends paid to non-affiliates	(36,043)	—	—	—	(36,043)
Dividends paid to affiliates	—	(34,624)	(1,419)	36,043	—
Net cash (used in) provided by financing activities	(37,671)	49,405	1,383	33,361	46,478
Change in cash, cash equivalents, and restricted cash	(949)	(47,162)	526	—	(47,585)
Cash, cash equivalents, and restricted cash at beginning of period	4,728	81,401	9,171	—	95,300
Cash, cash equivalents, and restricted cash at end of year	\$ 3,779	\$ 34,239	\$ 9,697	\$ —	\$ 47,715

CALIFORNIA WATER SERVICE GROUP
Notes to Consolidated Financial Statements (Continued)
December 31, 2019, 2018, and 2017
Dollar amounts in thousands unless otherwise stated

16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

California Water Service Group
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
(In thousands)					
Operating activities:					
Net income	\$ 72,940	\$ 70,071	\$ 2,362	\$ (72,433)	\$ 72,940
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity earnings of subsidiaries	(72,487)	—	—	72,487	—
Dividends received from Affiliates	34,563	—	—	(34,563)	—
Depreciation and amortization	94	74,041	4,548	(91)	78,592
Change in value of life insurance contract	—	(3,058)	—	—	(3,058)
Stock-based compensation	3,118	—	—	—	3,118
Gain on sale of non-utility properties	—	(663)	—	—	(663)
Changes in normalized deferred income taxes	—	21,087	—	—	21,087
Allowance for equity funds used during construction	—	(3,750)	—	—	(3,750)
Changes in operating assets and liabilities	184	(36,611)	38	—	(36,389)
Other changes in noncurrent assets and liabilities	254	13,101	2,573	37	15,965
Net cash provided by operating activities	38,666	134,218	9,521	(34,563)	147,842
Investing activities:					
Utility plant expenditures	(4)	(252,055)	(7,135)	—	(259,194)
TCP settlement proceeds	—	56,004	—	—	56,004
Proceeds from sale of non-utility assets	—	666	—	—	666
Change in affiliate advances	172	(485)	(50)	363	—
Issuance of affiliate short-term borrowings	(2,610)	—	—	2,610	—
Collection of affiliate long-term debt	1,356	—	—	(1,356)	—
Life insurance benefits	—	1,558	—	—	1,558
Purchase of life insurance	—	(5,605)	—	—	(5,605)
Net cash used in investing activities	(1,086)	(199,917)	(7,185)	1,617	(206,571)
Financing Activities:					
Short-term borrowings	—	265,000	—	—	265,000
Repayment of short-term borrowings	(2,000)	(85,000)	—	—	(87,000)
Change in affiliate advances	—	41	322	(363)	—
Proceeds from affiliate short-term borrowings	—	—	2,610	(2,610)	—
Repayment of affiliates long-term debt	—	—	(1,356)	1,356	—
Retirement of long-term debt	—	(26,223)	(606)	—	(26,829)
Advances and contribution in aid of construction	—	21,075	294	—	21,369
Refunds of advances for construction	—	(8,373)	(5)	—	(8,378)
Repurchase of common stock	(1,505)	—	—	—	(1,505)
Dividends paid to non-affiliates	(34,563)	—	—	—	(34,563)
Dividends paid to affiliates	—	(33,015)	(1,548)	34,563	—
Net cash (used in) provided by financing activities	(38,068)	133,505	(289)	32,946	128,094
Change in cash, cash equivalents, and restricted cash	(488)	67,806	2,047	—	69,365
Cash, cash equivalents, and restricted cash at beginning of period	5,216	13,595	7,124	—	25,935
Cash, cash equivalents, and restricted cash at end of year	\$ 4,728	\$ 81,401	\$ 9,171	\$ —	\$ 95,300

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

None

Item 9A. *Controls and Procedures.*

Management's 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 December 31, 2019. Based on that evaluation, we concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There was no change in our internal control over financial reporting during the quarter ended December 31, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control—Integrated Framework (2013)". Management has concluded that, as of December 31, 2019 our internal control over financial reporting is effective based on these criteria. Our independent registered public accounting firm, Deloitte & Touche LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2019, as stated in their report, which is included in Item 8 and incorporated herein.

Item 9B. *Other Information.*

None.

PART III

Item 10. *Directors and Executive Officers and Corporate Governance.*

The information required by this Item as to directors of the Company and the Company's Audit Committee is contained in the sections captioned "Board Structure," "Proposal No. 1—Election of Directors" and, as applicable, "Delinquent Section 16(a) Reports" of the definitive Proxy Statement for our Annual Meeting of Stockholders to be held on or about May 27, 2020 (the "2020 Proxy Statement"), and is incorporated herein by reference.

Information required by this Item regarding executive officers is included in a separate section captioned "Information About Our Executive Officers" contained in Part I of this annual report.

We have adopted a code of ethics that applies to all of our directors, officers, and employees, including our principal executive, financial and accounting officers, or persons performing similar functions. Our Code of Ethics is posted on our corporate governance website located at <http://www.calwatergroup.com>. In addition, amendments to the Code of Ethics and any grant of a waiver from a provision of the Code of Ethics requiring disclosure under applicable SEC and NYSE rules will be disclosed at the same location as the Code of Ethics on our corporate governance website located at <http://www.calwatergroup.com> within four business days of such amendment or waiver.

Item 11. *Executive Compensation.*

The information required by this Item is contained under the captions "Compensation Discussion and Analysis," "Report of the Organization and Compensation Committee of the Board of Directors on Executive Compensation," and "Organization and Compensation Committee Interlocks and Insider Participation" of the 2020 Proxy Statement and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*

The information required by this Item regarding security ownership of certain beneficial owners and management is contained in the section captioned "Stock Ownership of Management and Certain Beneficial Owners" of the 2020 Proxy Statement and is incorporated herein by reference.

The following table represents securities authorized to be issued under our equity compensation plan:

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Rights (a)</u>	<u>Weighted-Average Exercise Price of Outstanding Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plan (Excluding Securities Reflected in Column) (a)</u>
Equity compensation plans approved by security holders	86,456	\$ 52.83	2,057,343
Equity compensation plans not approved by security holders	—	—	—
Total	86,456	\$ 52.83	2,057,343

Item 13. *Certain Relationships and Related Transactions and Director Independence.*

The information required by this Item is contained in the sections captioned "Certain Related Persons Transactions" and "Board Structure" of the 2020 Proxy Statement and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services.*

The information required by this Item is contained in the section captioned "Report of the Audit Committee" and "Relationship with the Independent Registered Public Accounting Firm" of the 2020 Proxy Statement and is incorporated herein by reference.

PART IV**Item 15. Exhibits, Financial Statement Schedules.**

- (a) As part of this Form 10-K, the following documents are being filed:
1. *Financial Statement:* See "Index to Consolidated Financial Statements" in Part II, Item 8 of this Form 10-K.
 2. *Financial Statement Schedules:* No financial statement schedules are being included since the information otherwise required is included in the financial statements and the notes thereto.
 3. *Exhibits:* The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference.

EXHIBIT INDEX

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

Exhibit Number	
1.1**	<u>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.</u>
3.1	<u>Certificate of Incorporation of California Water Service Group (Exhibit 3.1 to the Quarterly Report on Form 10-Q filed August 9, 2006)</u>
3.2	<u>Certificate of Amendment to Certificate of Incorporation of California Water Service Group (Exhibit 3.1 to the Current Report on Form 8-K filed June 10, 2011)</u>
3.3	<u>Amended and Restated Bylaws of California Water Service Group, as amended on October 28, 2015 (Exhibit 3 to the Quarterly Report on Form 10-Q filed October 29, 2015)</u>
4.1	<u>Certificate of Designations regarding Series D Participating Preferred Stock, as filed with Delaware Secretary of State on September 16, 1999 (Exhibit 4.2 to Annual Report on Form 10-K for the year ended December 31, 2003)</u>
4.2	<u>Certificate of Elimination of the Series D Participating Preferred Stock, as filed with Delaware Secretary of State on February 27, 2019 (Exhibit 4.2 to Annual Report on Form 10-K for the year ended December 31, 2018)</u>
4.3	<u>Thirty-Ninth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee (Exhibit 4.1 to Current Report on Form 8-K filed April 21, 2009)</u>
4.4	<u>Fortieth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 9.86% First Mortgage Bonds due 2020, Series CC. (Exhibit 4.2 to Current Report on Form 8-K filed April 21, 2009)</u>
4.5	<u>Forty-First Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.875% First Mortgage Bonds due 2019, Series LL. (Exhibit 4.3 to Current Report on Form 8-K filed April 21, 2009)</u>
4.6	<u>Forty-Third Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 7.28% First Mortgage Bonds due 2025, Series AAA. (Exhibit 4.5 to Current Report on Form 8-K filed April 21, 2009)</u>
4.7	<u>Forty-Fourth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 6.77% First Mortgage Bonds due 2028, Series BBB. (Exhibit 4.6 to Current Report on Form 8-K filed April 21, 2009)</u>
4.8	<u>Forty-Fifth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 8.15% First Mortgage Bonds due 2030, Series CCC. (Exhibit 4.7 to Current Report on Form 8-K filed April 21, 2009)</u>
4.9	<u>Forty-Sixth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 7.13% First Mortgage Bonds due 2031, Series DDD. (Exhibit 4.8 to Current Report on Form 8-K filed April 21, 2009)</u>
4.10	<u>Forty-Seventh Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 7.11% First Mortgage Bonds due 2032, Series EEE. (Exhibit 4.9 to Current Report on Form 8-K filed April 21, 2009)</u>
4.11	<u>Forty-Ninth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.29% First Mortgage Bonds due 2022, Series GGG. (Exhibit 4.11 to Current Report on Form 8-K filed April 21, 2009)</u>

Exhibit Number	
4.12	<u>Fiftieth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.29% First Mortgage Bonds due 2022, Series HHH. (Exhibit 4.12 to Current Report on Form 8-K filed April 21, 2009)</u>
4.13	<u>Fifty-First Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.54% First Mortgage Bonds due 2023, Series III. (Exhibit 4.13 to Current Report on Form 8-K filed April 21, 2009)</u>
4.14	<u>Fifty-Second Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.44% First Mortgage Bonds due 2018, Series JJJ. (Exhibit 4.14 to Current Report on Form 8-K filed April 21, 2009)</u>
4.15	<u>Fifty-Fourth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.48% First Mortgage Bonds due 2018, Series LLL. (Exhibit 4.16 to Current Report on Form 8-K filed April 21, 2009)</u>
4.16	<u>Fifty-Seventh Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 6.02% First Mortgage Bonds due 2031, Series OOO. (Exhibit 4.19 to Current Report on Form 8-K filed April 21, 2009)</u>
4.17	<u>Fifty-Eighth Supplemental Indenture dated as of November 22, 2010, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.50% First Mortgage Bonds due 2040, Series PPP. (Exhibit 4.1 to Current Report on form 8-K filed November 22, 2010).</u>
4.18	<u>Sixty-First Supplemental Indenture dated as of September 13, 2018, between California Water Service Company and U.S. Bank National Association, as Trustee, covering Floating Rate First Mortgage Bonds due 2020, Series UUU. (Exhibit 4.1 to Quarterly Report on form 10-Q filed November 1, 2018).</u>
4.19	<u>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)</u>
4.20	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.
4.21	<u>Description of Securities.</u>
10.1	Water Supply Contract between Cal Water and County of Butte relating to Cal Water's Oroville District; Water Supply Contract between Cal Water and the Kern County Water Agency relating to Cal Water's Bakersfield District; Water Supply Contract between Cal Water and Stockton East Water District relating to Cal Water's Stockton District. (Exhibits 5(g), 5(h), 5(i), 5(j), Registration Statement No. 2-53678, which exhibits are incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1974)
10.2	<u>Water Supply Contract between the City and County of San Francisco and wholesale customers in Alameda County, San Mateo County and Santa Clara County for a term of twenty-five years beginning on July 1, 2009 and ending on June 30, 2034. The agreement was dated June 24, 2009. (Exhibit 10.3 to Quarterly Report on Form 10-Q for the quarter ending September 30, 2009).</u>
10.3	<u>Water Supply Contract dated July 1, 2009 between the City and County of San Francisco and California Water Service Company to provide water to Bear Gulch and Bayshore service areas for a term of twenty-five years beginning July 1, 2009 and ending June 30, 2034. (Exhibit 10.4 to Quarterly Report on Form 10-Q for the quarter ending September 30, 2009).</u>
10.4	Water Supply Contract dated January 27, 1981, between Cal Water and the Santa Clara Valley Water District relating to Cal Water's Los Altos District (Exhibit 10.3 to Annual Report on Form 10-K for the year ended December 31, 1992)
10.5	Amendments No. 3, 6 and 7 and Amendment dated June 17, 1980, to Water Supply Contract between Cal Water and the County of Butte relating to Cal Water's Oroville District. (Exhibit 10.5 to Annual Report on Form 10-K for the year ended December 31, 1992)
10.6	Amendment dated May 31, 1977, to Water Supply Contract between Cal Water and Stockton East Water District relating to Cal Water's Stockton District. (Exhibit 10.6 to Annual Report on Form 10-K for the year ended December 31, 1992)
10.7	Second Amended Contract dated September 25, 1987, among Stockton East Water District, California Water Service Company, the City of Stockton, the Lincoln Village Maintenance District, and the Colonial Heights Maintenance District Providing for the Sale of Treated Water. (Exhibit 10.7 to Annual Report on Form 10-K for the year ended December 31, 1987)
10.8	Water Supply Contract dated April 19, 1927, and Supplemental Agreement dated June 5, 1953, between Cal Water and Pacific Gas and Electric Company relating to Cal Water's Oroville District. (Exhibit 10.9 to Annual Report on Form 10-K for the year ended December 31, 1992)

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Exhibit Number	
10.9	Water Supply Agreement dated September 25, 1996, between the City of Bakersfield and California Water Service Company. (Exhibit 10.18 to Quarterly Report on Form 10-Q for the quarter ended September 30, 1996)
10.10	Water Supply Contract dated November 16, 1994, between California Water Service Company and Alameda County Flood Control and Water Conservation District relating to Cal Water's Livermore District (Exhibit 10.15 to Annual Report on Form 10-K for the year ended December 31, 1994)
10.11	<u>California Water Service Group Directors' Retirement Plan (As amended and restated on February 22, 2006) (Exhibit 10.14 to the Annual Report on Form 10-K for the year ended December 31, 2005)</u>
10.12	<u>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)</u>
10.13	<u>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)</u>
10.14	<u>Executive Severance Plan (Exhibit 10.24 to Annual Report on Form 10-K for the year ended December 31, 1998)*</u>
10.15	<u>California Water Service Group Deferred Compensation Plan effective January 1, 2001 (Exhibit 10.22 to Annual Report on Form 10-K for the year ended December 31, 2000)*</u>
10.16	<u>California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.23 to Annual Report on Form 10-K for the year ended December 31, 2000)*</u>
10.17	<u>Amendment No. 1 to California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.22 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)*</u>
10.18	<u>Water Supply Contract 99-73 between the City of Bakersfield and California Water Service Company, dated March 31, 1999 (Exhibit 10.25 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)</u>
10.19	<u>Amendment No. 1 to Water Supply Contract between the City of Bakersfield and California Water Service Company, dated October 3, 2001 (Exhibit 10.26 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)</u>
10.20	<u>Amendment No. 2 to California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.27 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)*</u>
10.21	<u>California Water Service Group Amended and Restated Equity Incentive Plan (filed as Appendix A of the California Water Service Group proxy statement dated April 8, 2014, for its Annual Meeting of Stockholders to be held on May 20, 2014, as filed with the SEC on April 8, 2014)*</u>
10.22	<u>The registrant's policy on option repricing under its Equity Incentive Plan (incorporated by reference to Item 8.01 Other Events in the registrant's Current Report on Form 8-K dated April 7, 2005)*</u>
10.23	<u>Water Supply Contract dated September 21, 2005, between Cal Water and the Kern County Water Agency. (Exhibit 10.1 to Current Report on Form 8-K filed on September 21, 2005)</u>
10.24	<u>Form of Restricted Stock Award Grant Notice under the California Water Service Group Equity Incentive Plan. (Exhibit 10.36 to the Annual Report on Form 10-K for the year ended December 31, 2005)</u>
10.25	<u>Form of Restricted Stock Award Agreement under the California Water Service Group Equity Incentive Plan with Assignment Separate From Certificate and Joint Escrow Instructions. (Exhibit 10.38 to the Annual Report on Form 10-K for the year ended December 31, 2005)</u>
10.26	<u>Form of Indemnification Agreement to be entered between California Water Service Group and its directors and officers. (Exhibit 10.44 to the Annual Report on Form 10-K for the year ended December 31, 2006)</u>
21.0	<u>Subsidiaries of the Registrant</u>
23.1	<u>Consent of Independent Registered Public Accounting Firm</u>
31.1	<u>Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.0	<u>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</u>

Exhibit Number	
101	The following materials from California Water Service Group's Annual Report on Form 10-K for the year ended December 31, 2019 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Common Stockholders' Equity and (v) the Notes to the Consolidated Financial Statements.
104	The cover page from California Water Service Group's Annual Report on Form 10-K for the year ended December 31, 2019, formatted in iXBRL (included as exhibit 101).

* Management contract or compensatory plan or arrangement.

** Refiled to correct non-substantive typographical and formatting errors.

Item 16. Form 10-K Summary.

None.

SIGNATURES

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

By CALIFORNIA WATER SERVICE GROUP
/s/ MARTIN A. KROPELNICKI
MARTIN A. KROPELNICKI,
President and Chief Executive Officer

Date: February 27, 2020

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

<u>/s/ PETER C. NELSON</u> PETER C. NELSON	Chairman, Board of Directors	Date: February 27, 2020
<u>/s/ GREGORY E. ALIFF</u> GREGORY E. ALIFF	Member, Board of Directors	Date: February 27, 2020
<u>/s/ TERRY P. BAYER</u> TERRY P. BAYER	Member, Board of Directors	Date: February 27, 2020
<u>/s/ SHELLY M. ESQUE</u> SHELLY M. ESQUE	Member, Board of Directors	Date: February 27, 2020
<u>/s/ THOMAS M. KRUMMEL</u> THOMAS M. KRUMMEL, M.D.	Member, Board of Directors	Date: February 27, 2020
<u>/s/ RICHARD P. MAGNUSON</u> RICHARD P. MAGNUSON	Member, Board of Directors	Date: February 27, 2020
<u>/s/ SCOTT L. MORRIS</u> SCOTT L. MORRIS	Member, Board of Directors	Date: February 27, 2020
<u>/s/ CAROL M. POTTENGER</u> CAROL M. POTTENGER	Member, Board of Directors	Date: February 27, 2020
<u>/s/ LESTER A. SNOW</u> LESTER A. SNOW	Member, Board of Directors	Date: February 27, 2020
<u>/s/ PATRICIA K. WAGNER</u> PATRICIA K. WAGNER	Member, Board of Directors	Date: February 27, 2020
<u>/s/ MARTIN A. KROPELNICKI</u> MARTIN A. KROPELNICKI	President and Chief Executive Officer; Principal Executive Officer; Member, Board of Directors	Date: February 27, 2020
<u>/s/ THOMAS F. SMEGAL III</u> THOMAS F. SMEGAL III	Vice President, Chief Financial Officer and Treasurer; Principal Financial Officer	Date: February 27, 2020
<u>/s/ DAVID B. HEALEY</u> DAVID B. HEALEY	Vice President, Corporate Controller and Assistant Treasurer; Principal Accounting Officer	Date: February 27, 2020

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, (B) 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**”), (C) as of each time Shares are sold pursuant to this Agreement (each, a “**Time of Sale**”), (D) at each Settlement Date (as defined below) and (E) 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; (ii) 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; (iii) 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 (iv) 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; (ii) 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; (iii) 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 (iv) 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, (B) 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 (C) 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 (ii)(A) at the time of filing of the Registration Statement, (B) 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 (C) 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 (ii) 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**”), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) 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; (ii) 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 (iii) 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; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. GAAP and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management’s general or specific authorization; (iv) 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 (v) 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, (ii) 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 (iii) 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, (ii) the gross offering proceeds received from such sale and (iii) 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 (ii) 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; (ii) 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; (iii) 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; (iv) 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; (v) 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 (vi) 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, (B) 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 (C) 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, (ii) the net proceeds received by the Company from such sales and (iii) 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 (ii) 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, (ii) all costs and expenses related to the transfer and delivery of the Shares, including any transfer or other taxes payable thereon, (iii) 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, (iv) 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, (v) all costs and expenses incident to listing the Shares on the NYSE, (vi) the costs and charges of any transfer agent, registrar or depository, and (vii) 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.

(j) 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).

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

(l) 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 (ii) 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.

(m) (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.

(n) 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).

(o) 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), (ii) the Company files an annual report on Form 10-K or quarterly report on Form 10-Q, (iii) 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 (iv) 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).

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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 (ii) 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.

(u) 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, (ii) 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, (iii) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to existing employee benefit plans of the Company or (iv) 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 (B) the Managers suspending activity under this program for such period of time as requested by the Company.

(v) 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.

(w) 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)).

(b) 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.”).

(c) 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 (ii) 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.

(d) 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 (ii) 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.

(e) 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.

(f) 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, (ii) 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 (iii) 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 (ii) 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) 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 (ii) the provisions of Section 1, Section 7(b), and Section 8 of this Agreement shall remain in full force and effect notwithstanding such termination.

(c) 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.

(d) 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.

b. 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, (ii) 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 (iii) 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.

b. 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

BLAYLOCK VAN, LLC

By: /s/ Louis DeCaro

Name: Louis DeCaro

Title: Head of Investment Banking

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]

**DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO
SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

The following description of the common stock of California Water Service Group (the "Group," "us," "our" or "we") does not purport to be complete and is subject to, and qualified in its entirety by, our certificate of incorporation, as amended ("certificate"), and our amended and restated bylaws ("bylaws"), each of which is incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this exhibit is a part.

General

Our authorized capital stock consists of 68,000,000 shares of common stock, \$0.01 par value, and 241,000 shares of preferred stock, \$0.01 par value per share. We have one class of securities registered under Section 12 of the Securities Exchange Act of 1934, our common stock, which is listed on the New York Stock Exchange under the symbol "CWT." There are no shares of preferred stock outstanding.

Common Stock

Voting rights. The holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders. A majority of the votes cast is required for stockholders to elect directors (except that directors are elected by a plurality of the votes cast in a contested director election). All other matters put to a stockholder vote generally require the approval of a majority of the votes entitled to be cast by the shares represented at a meeting of the stockholders, except as otherwise provided by our certificate or bylaws or required by law. Stockholders do not have cumulative voting rights.

Dividends. The holders of our common stock have the right to receive any dividends we declare and pay on our common stock, subject to the rights, privileges, preferences, restrictions and conditions attaching to any other class or series of our securities. After all cumulative dividends are declared and paid or set apart on any series of our preferred stock which may be outstanding, the board may declare any additional dividends on our common stock out of our surplus (the excess, if any, of our net assets over total paid-in capital) or if there is no surplus, the net profits for the current fiscal year or the fiscal year before which the dividend is declared. Our board may only declare cash dividends if after paying those dividends we would be able to pay our liabilities as they become due.

Liquidation. The holders of our common stock have the right to receive our remaining assets and funds upon liquidation, dissolution or winding-up, if any, after we pay to the holders of any series of our preferred stock the amounts they are entitled to, and after we pay all our debts and liabilities.

Preemptive, subscription and conversion rights. Our common stock is not redeemable and has no preemptive, subscription or conversion rights.

Transfer agent. The transfer agent and registrar for our common stock is Computershare Limited.

Our common stock is subject and subordinate to any rights and preferences granted under our certificate and any rights and preferences which may be granted to any series of preferred stock by our board pursuant to the authority conferred upon our board under our certificate.

Anti-Takeover Provisions

Some provisions of our certificate, bylaws and Delaware law may have the effect of delaying, discouraging or preventing a change in control of us or changes in our management. Pursuant to our certificate and bylaws:

- the board of directors is authorized to issue “blank check” preferred stock without stockholder approval;
- the board of directors is expressly authorized to make, alter or repeal any provision of our bylaws;
- stockholders may not cumulate votes in the election of directors;
- stockholders may take action only at a duly called meeting of the stockholders, and stockholders are not permitted to act by written consent;
- special meetings of the stockholders may be called by the stockholders only upon the request of stockholders owning shares representing 10% or more of the voting power of the then outstanding shares of capital stock entitled to vote on the matter or matters to be brought before the proposed special meeting;
- stockholders must satisfy advance notice procedures to submit proposals or nominate directors for consideration at a stockholders meeting; and
- we will indemnify officers and directors against losses that they may incur as a result of investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law (“DGCL”). In general, the statute prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date that the person became an interested stockholder unless, with some exceptions, the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a “business combination” includes a merger, asset or stock sale or other transaction resulting in a financial benefit to the stockholder, and an “interested stockholder” is a person who, together with affiliates and associates, owns (or within three years prior, did own) 15% or more of the corporation’s outstanding voting stock. This provision may have the effect of delaying, deferring or preventing a change in control without further action by the stockholders.

Exclusive Forum

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) will be the sole and exclusive forum for any stockholder (including any beneficial owner) to bring: (a) any derivative action or proceeding brought on our behalf; (b) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or employees to us or our stockholders; (c) any action asserting a claim arising pursuant to any provision of the DGCL, our certificate or our bylaws; (d) any action asserting a claim governed by the internal affairs doctrine; or (e) any other action asserting an internal corporate claim, as defined in Section 115 of the DGCL; in all cases subject to the court’s having personal jurisdiction over the indispensable parties named as defendants. It is possible that a court of law could rule that the choice of forum provision contained in our bylaws is inapplicable or unenforceable if it is challenged in a proceeding or otherwise.

Subsidiaries of the Registrant

<u>Subsidiary Name</u>	<u>State of Incorporation</u>	<u>Business Name</u>
California Water Service Company	California	California Water Service Company
CWS Utility Services	California	CWS Utility Services
New Mexico Water Service Company	New Mexico	New Mexico Water Service Company
Washington Water Service Company	Washington	Washington Water Service Company
Hawaii Water Service Company, Inc.	Hawaii	Hawaii Water Service Company
HWS Utility Services LLC	Hawaii	HWS Utility Services

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-234389, 333-158484 and 333-181329 on Form S-3 and Nos. 333-60810, 333-127495, and 333-228824 on Form S-8 of our report dated February 27, 2020, relating to the consolidated financial statements of California Water Service Group and the effectiveness of California Water Service Group's internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended December 31, 2019.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California

February 27, 2020

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
CERTIFICATION**

I, Martin A. Kropelnicki, certify that:

1. I have reviewed this annual report on Form 10-K 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(c)) 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: February 27, 2020

By: /s/ MARTIN A. KROPELNICKI

Martin A. Kropelnicki
President and Chief Executive Officer

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
CERTIFICATION**

I, Thomas F. Smegal III, certify that:

1. I have reviewed this annual report on Form 10-K 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(c)) 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: February 27, 2020

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 hereby certifies, in his capacity as an officer of California Water Service Group, that the Annual Report of California Water Service Group on Form 10-K for the period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of California Water Service Group.

Date: February 27, 2020

By: /s/ MARTIN A. KROPELNICKI

MARTIN A. KROPELNICKI
Chief Executive Officer
California Water Service Group

Date: February 27, 2020

By: /s/ THOMAS F. SMEGAL III

THOMAS F. SMEGAL III
Chief Financial Officer
California Water Service Group