
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2020**

or

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

For the transition period from _____ to _____

Commission file number **1-13883**

CALIFORNIA WATER SERVICE GROUP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

77-0448994
(I.R.S. Employer identification No.)

1720 North First Street
San Jose, California 95112
(Address of principal executive offices)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding as of June 30, 2020 — 49,398,000

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PART I FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS

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

**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED BALANCE SHEETS**

Unaudited (In thousands, except per share data)

	June 30, 2020	December 31, 2019
ASSETS		
Utility plant:		
Utility plant	\$ 3,752,243	\$ 3,550,485
Less accumulated depreciation and amortization	(1,214,427)	(1,144,115)
Net utility plant	<u>2,537,816</u>	<u>2,406,370</u>
Current assets:		
Cash and cash equivalents	114,388	42,653
Receivables:		
Customers, net	46,087	32,058
Regulatory balancing accounts	23,738	38,225
Other, net	13,605	14,187
Unbilled revenue, net	39,599	34,879
Materials and supplies at weighted average cost	8,375	7,745
Taxes, prepaid expenses, and other assets	21,097	14,965
Total current assets	<u>266,889</u>	<u>184,712</u>
Other assets:		
Regulatory assets	440,986	433,322
Goodwill	31,132	2,615
Other assets	83,110	84,289
Total other assets	<u>555,228</u>	<u>520,226</u>
TOTAL ASSETS	<u>\$ 3,359,933</u>	<u>\$ 3,111,308</u>
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$0.01 par value; 68,000 shares authorized, 49,398 and 48,532 outstanding in 2020 and 2019, respectively	\$ 494	\$ 485
Additional paid-in capital	400,080	362,275
Retained earnings	381,449	417,146
Total common stockholders' equity	<u>782,023</u>	<u>779,906</u>
Long-term debt, net	785,257	786,754
Total capitalization	<u>1,567,280</u>	<u>1,566,660</u>
Current liabilities:		
Current maturities of long-term debt, net	21,872	21,868
Short-term borrowings	375,100	175,100
Accounts payable	128,216	108,463
Regulatory balancing accounts	1,602	4,462
Accrued interest	5,330	5,810
Accrued expenses and other liabilities	45,432	43,018
Total current liabilities	<u>577,552</u>	<u>358,721</u>
Deferred income taxes	223,955	222,590
Pension and postretirement benefits other than pensions	261,119	258,907
Regulatory liabilities and other	270,177	271,831
Advances for construction	195,056	191,062
Contributions in aid of construction	264,794	241,537
Commitments and contingencies (Note 10)		
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$ 3,359,933</u>	<u>\$ 3,111,308</u>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

Unaudited (In thousands, except per share data)

For the three months ended	June 30, 2020	June 30, 2019
Operating revenue	\$ 175,484	\$ 179,031
Operating expenses:		
Operations:		
Water production costs	71,142	64,635
Administrative and general	26,939	25,434
Other operations	25,898	22,542
Maintenance	6,722	5,692
Depreciation and amortization	24,542	22,326
Income taxes	622	4,321
Property and other taxes	7,126	7,068
Total operating expenses	162,991	152,018
Net operating income	12,493	27,013
Other income and expenses:		
Non-regulated revenue	4,208	5,130
Non-regulated expenses	(492)	(3,900)
Other components of net periodic benefit cost	(1,332)	(1,192)
Allowance for equity funds used during construction	1,705	1,686
Income tax expense on other income and expenses	(820)	(487)
Net other income	3,269	1,237
Interest expense:		
Interest expense	11,613	12,178
Allowance for borrowed funds used during construction	(1,132)	(924)
Net interest expense	10,481	11,254
Net income	\$ 5,281	\$ 16,996
Earnings per share:		
Basic	\$ 0.11	\$ 0.35
Diluted	0.11	0.35
Weighted average shares outstanding:		
Basic	48,936	48,136
Diluted	48,936	48,136

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

For the six months ended	June 30, 2020	June 30, 2019
Operating revenue	\$ 301,047	\$ 305,142
Operating expenses:		
Operations:		
Water production costs	125,118	110,227
Administrative and general	56,619	54,531
Other operations	39,872	40,363
Maintenance	13,795	12,147
Depreciation and amortization	49,034	44,694
Income tax (benefit) expense	(3,315)	1,330
Property and other taxes	14,354	14,361
Total operating expenses	295,477	277,653
Net operating income	5,570	27,489
Other income and expenses:		
Non-regulated revenue	8,035	10,031
Non-regulated expenses	(8,946)	(6,119)
Other components of net periodic benefit cost	(2,762)	(2,451)
Allowance for equity funds used during construction	3,319	3,219
Income tax benefit (expense) on other income and expenses	93	(1,315)
Net other (loss) income	(261)	3,365
Interest expense:		
Interest expense	22,411	23,253
Allowance for borrowed funds used during construction	(2,076)	(1,755)
Net interest expense	20,335	21,498
Net (loss) income	\$ (15,026)	\$ 9,356
(Loss) earnings per share:		
Basic	\$ (0.31)	\$ 0.19
Diluted	(0.31)	0.19
Weighted average shares outstanding:		
Basic	48,759	48,111
Diluted	48,759	48,111

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

For the six months ended:	June 30, 2020	June 30, 2019
Operating activities:		
Net (loss) income	\$ (15,026)	\$ 9,356
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	50,251	45,744
Change in value of life insurance contracts	872	(3,147)
Allowance for equity funds used during construction	(3,319)	(3,219)
Changes in operating assets and liabilities:		
Receivables and unbilled revenue	(6,215)	(16,619)
Accounts payable	3,405	5,928
Other current assets	(6,759)	(5,750)
Other current liabilities	(970)	(396)
Other changes in noncurrent assets and liabilities	(2,235)	11,494
Net cash provided by operating activities	20,004	43,391
Investing activities:		
Utility plant expenditures	(133,537)	(121,936)
Business acquisition, net of cash acquired	(37,655)	—
Net cash used in investing activities	(171,192)	(121,936)
Financing activities:		
Short-term borrowings	270,000	190,000
Repayment of short-term borrowings	(70,000)	(90,000)
Issuance of long-term debt, net of expenses of \$1,558 for 2019	—	398,442
Repayment of long-term debt	(1,293)	(401,358)
Advances and contributions in aid of construction	12,569	12,755
Refunds of advances for construction	(4,341)	(3,555)
Repurchase of common stock	(1,479)	(2,203)
Issuance of common stock	38,006	829
Dividends paid	(20,671)	(19,000)
Net cash provided by financing activities	222,791	85,910
Change in cash, cash equivalents, and restricted cash	71,603	7,365
Cash, cash equivalents, and restricted cash at beginning of period	43,298	47,715
Cash, cash equivalents, and restricted cash at end of period	\$ 114,901	\$ 55,080
Supplemental information:		
Cash paid for interest (net of amounts capitalized)	\$ 20,433	\$ 21,033
Supplemental disclosure of non-cash activities:		
Accrued payables for investments in utility plant	\$ 54,049	\$ 31,464
Utility plant contribution by developers	\$ 13,818	\$ 11,092

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CALIFORNIA WATER SERVICE GROUP
Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2020
Dollar amounts in thousands unless otherwise stated

Note 1. Organization and Operations and Basis of Presentation

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

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

Basis of Presentation

The unaudited condensed consolidated interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC) and therefore do not contain all of the information and footnotes required by GAAP and the SEC for annual financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2019 as filed with the SEC on February 27, 2020.

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

In the opinion of management, the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of normal recurring transactions that are necessary to provide a fair presentation of the results for the periods covered.

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

Note 2. Summary of Significant Accounting Policies

Operating revenue

The following tables disaggregate the Company's operating revenue by source for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30	
	2020	2019
Revenue from contracts with customers	\$ 172,497	\$ 167,467
Regulatory balancing account revenue (a)	2,987	11,564
Total operating revenue	\$ 175,484	\$ 179,031

	Six Months Ended June 30	
	2020	2019
Revenue from contracts with customers	\$ 307,330	\$ 284,877
Regulatory balancing account revenue (a)	(6,283)	20,265
Total operating revenue	\$ 301,047	\$ 305,142

(a) As further discussed below, no amounts were recorded for the Company's Water Revenue Adjustment Mechanism (WRAM), Modified Cost Balancing Account (MCBA), Pension Cost Balancing Account (PCBA), and Health Cost Balancing Account (HCBA) for the three and six months ended June 30, 2020 due to the delay in the resolution of the 2018 General Rate Case (GRC).

Revenue from contracts with customers

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

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

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

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

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

In the following tables, revenue from contracts with customers is disaggregated by class of customers for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30	
	2020	2019
Residential	\$ 116,453	\$ 107,349
Business	28,531	31,706
Industrial	6,622	7,524
Public authorities	7,711	7,613
Other (a)	13,180	13,275
Total revenue from contracts with customers	<u>\$ 172,497</u>	<u>\$ 167,467</u>

	Six Months Ended June 30	
	2020	2019
Residential	\$ 208,998	\$ 191,609
Business	56,223	57,186
Industrial	14,500	14,788
Public authorities	13,608	12,084
Other (a)	14,001	9,210
Total revenue from contracts with customers	<u>\$ 307,330</u>	<u>\$ 284,877</u>

(a) Other includes the accrued unbilled revenue.

Regulatory balancing account revenue

The Company's ability to recover revenue requirements authorized by the California Public Utilities Commission (CPUC) in its triennial 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 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 MCBA, Conservation Expense Balancing Account (CEBA), PCBA, and HCBA, 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.

The WRAM, MCBA, PCBA, and HCBA are being litigated in the pending 2018 GRC, which is further discussed in Note 9. As the mechanisms are being litigated, the Company did not record regulatory assets for the WRAM, MCBA, PCBA, and HCBA for the first six months of 2020. The Company determined that these mechanisms did not meet the regulatory asset recognition criteria under accounting standards for regulated utilities. As the CEBA is not being litigated in the pending 2018 GRC, the Company recorded a regulatory liability for the CEBA for the first six months of 2020. The Company determined that the CEBA met the regulatory liability recognition criteria under accounting standards for regulated utilities.

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

Non-regulated Revenue

The following tables disaggregate the Company's non-regulated revenue by source for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30	
	2020	2019
Operating and maintenance revenue	\$ 2,789	\$ 3,273
Other non-regulated revenue	834	1,267
Non-regulated revenue from contracts with customers	\$ 3,623	\$ 4,540
Lease revenue	\$ 585	\$ 590
Total non-regulated revenue	\$ 4,208	\$ 5,130

	Six Months Ended June 30	
	2020	2019
Operating and maintenance revenue	\$ 5,288	\$ 6,319
Other non-regulated revenue	1,599	2,563
Non-regulated revenue from contracts with customers	\$ 6,887	\$ 8,882
Lease revenue	\$ 1,148	\$ 1,149
Total non-regulated revenue	\$ 8,035	\$ 10,031

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.

Allowance for credit losses

The Company measures expected credit losses for Customer Receivables, Other Receivables, and Unbilled Revenue on an aggregated level. These receivables are generally trade receivables due in one year or less or expected to be billed and collected in one year or less. The expected credit losses for Other Receivables is inconsequential. Although the Company has residential, business, industrial, public authorities, and other customers, the risk characteristics of each of these customer classes is similar as the Company has determined that the differences in the customer write-off behavior among its customer classes is inconsequential. The overall risks related to the Company's receivables is low as water and wastewater services are seen as essential services. The estimate for the allowance for credit losses is based off of a historical loss ratio that is adjusted for current conditions and reasonable and supportable forecasts. For the first six months of 2020, the estimate includes adjustments made for the effects of the COVID-19 pandemic. As the states in which the Company operates have issued 'shelter-in-place' and social distancing ordinances, the Company is expecting segments of its customer base to continue to experience employment layoffs and business closures that negatively impact their ability to pay utility bills. The Company has also ceased all shutoffs for nonpayment during the pandemic.

The following table presents the activity in the allowance for credit losses for the period ended June 30, 2020:

<i>Allowance for credit losses</i>	As of June 30, 2020	
	Customer Receivables	Unbilled Revenue
Beginning balance	374	397
Provision for credit loss expense	875	727
Write-offs	(509)	(511)
Recoveries	135	112
Total ending allowance balance	\$ 875	\$ 725

Cash, Cash Equivalents, and Restricted Cash

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

	June 30, 2020	December 31, 2019
Cash and cash equivalents	114,388	42,653
Restricted cash (included in "taxes, prepaid expenses and other assets")	513	645
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	\$ 114,901	\$ 43,298

Adoption of New Accounting Standards

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 did not 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 the second step of the goodwill impairment test that 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 did not 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. The Company adopted the standard in part prospectively and in part retrospectively, in accordance with the requirements of ASU 2018-13, on January 1, 2020. Since the Company does not have level 3 fair value measurements or transfers between level 1 and level 2 fair value measurements, the adoption of the standard did not have a material impact on its footnote disclosures.

Note 3. Stock-based Compensation

Equity Incentive Plan

The following table lists the number of annual Restricted Stock Awards (RSAs) granted and canceled during the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
RSAs granted	—	—	39,915	36,183
RSAs canceled	2,151	2,544	7,185	10,878

During the first six months of 2020 and 2019, the RSAs granted were valued at \$1.41 and \$52.83 per share, respectively, based upon the fair value of the Company's common stock on the date of grant. RSAs granted to officers vest over 36 months with the first year cliff vesting. RSAs granted to directors generally cliff vest at the end of 12 months.

The following table lists the number of performance-based Restricted Stock Unit Awards (RSUs) granted, issued, and canceled during the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
RSUs granted	—	—	32,720	26,473
RSUs issued	—	—	41,731	62,726
RSUs canceled	—	—	22,936	31,177

Each RSU award reflects a target number of shares that may be issued to the award recipient. The 2020 and 2019 RSUs granted may be issued upon completion of the three-year performance period and are recognized as expense ratably over the period using a fair value of \$51.41 per share and \$52.83 per share, respectively, and an estimate of RSUs earned during the period.

The Company has recorded compensation costs for the RSAs and RSUs in administrative and general operating expenses in the amount of \$0.5 million and \$1.2 million for the three months ended June 30, 2020 and 2019, respectively. For the six months ended June 30, 2020 and 2019, the Company has recorded compensation costs for the RSAs and RSUs in the amount of \$1.3 million and \$3.9 million, respectively.

Note 4. Equity

The Company sold 677,318 shares of common stock through its at-the-market equity program and raised proceeds of \$1.1 million net of \$0.3 million in commissions paid under the equity distribution agreement during the three months ended June 30, 2020. During the six months ended June 30, 2020, the Company sold 793,152 shares of common stock through its at-the-market equity program and raised proceeds of \$37.1 million net of \$0.4 million in commissions paid under the equity distribution agreement.

The Company's changes in total common stockholders' equity for the six months ended June 30, 2020 and 2019 were as follows:

	Six months ended June 30, 2020				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
(In thousands)					
Balance at January 1, 2020	48,532	\$ 485	\$ 362,275	\$ 417,146	\$ 779,906
Net loss				(20,307)	(20,307)
Issuance of common stock	210	2	7,227		7,229
Repurchase of common stock	(28)	—	(1,373)		(1,373)
Dividends paid on common stock (\$0.2125 per share)				(10,315)	(10,315)
Balance at March 31, 2020	48,714	487	368,129	386,524	755,140
Net income				5,281	5,281
Issuance of common stock	686	7	32,056		32,063
Repurchase of common stock	(2)	—	(105)		(105)
Dividends paid on common stock (\$0.2125 per share)				(10,356)	(10,356)
Balance at June 30, 2020	49,398	494	400,080	381,449	782,023
	Six months ended June 30, 2019				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
(In thousands)					
Balance at January 1, 2019	48,065	\$ 481	\$ 337,623	\$ 392,053	\$ 730,157
Net loss				(7,640)	(7,640)
Issuance of common stock	109	—	3,179		3,179
Repurchase of common stock	(40)	—	(2,074)		(2,074)
Dividends paid on common stock (\$0.1975 per share)				(9,493)	(9,493)
Balance at March 31, 2019	48,134	481	338,728	374,920	714,129
Net income				16,996	16,996
Issuance of common stock	8	—	1,675		1,675
Repurchase of common stock	(2)	—	(129)		(129)
Dividends paid on common stock (\$0.1975 per share)				(9,507)	(9,507)
Balance at June 30, 2019	48,140	481	340,274	382,409	723,164

Note 5. Earnings (Loss) Per Share

The computations of basic and diluted earnings (loss) per share are noted in the table below. Basic earnings (loss) per share are computed by dividing the net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. RSAs are included in the weighted average common shares outstanding because the shares have all the same voting and dividend rights as issued and unrestricted common stock. RSUs are not included in diluted shares for financial reporting until authorized by the Organization & Compensation Committee of the Board of Directors.

	Three Months Ended June 30	
	2020	2019
(In thousands, except per share data)		
Net income available to common stockholders	\$ 5,281	\$ 16,996
Weighted average common shares outstanding, basic	48,936	48,136
Weighted average common shares outstanding, dilutive	48,936	48,136
Earnings per share - basic	\$ 0.11	\$ 0.35
Earnings per share - diluted	\$ 0.11	\$ 0.35
	Six Months Ended June 30	
	2020	2019
(In thousands, except per share data)		
Net (loss) income available to common stockholders	\$ (15,026)	\$ 9,356
Weighted average common shares outstanding, basic	48,759	48,111
Weighted average common shares outstanding, dilutive	48,759	48,111
(Loss) earnings per share - basic	\$ (0.31)	\$ 0.19
(Loss) earnings per share - diluted	\$ (0.31)	\$ 0.19

Note 6. Pension Plan and Other Postretirement Benefits

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

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

Cash contributions made by the Company to the pension plans were \$16.8 million and \$6.3 million for the six months ended June 30, 2020 and 2019, respectively. Cash contributions made by the Company to the other postretirement benefit plans were \$3.9 million and \$3.4 million for the six months ended June 30, 2020 and 2019, respectively. The total 2020 estimated cash contribution to the pension plans and other postretirement benefits plans are expected to be approximately \$38.0 million and \$7.5 million, respectively.

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

	Three Months Ended June 30			
	Pension Plan		Other Benefits	
	2020	2019	2020	2019
Service cost	\$ 8,811	\$ 6,565	\$ 2,106	\$ 1,762
Interest cost	6,433	6,642	1,210	1,337
Expected return on plan assets	(8,265)	(7,567)	(1,811)	(1,435)
Amortization of prior service cost	1,057	1,262	49	49
Recognized net actuarial loss	3,196	1,312	14	104
Net periodic benefit cost	<u>\$ 11,232</u>	<u>\$ 8,214</u>	<u>\$ 1,568</u>	<u>\$ 1,817</u>
	Six Months Ended June 30			
	Pension Plan		Other Benefits	
	2020	2019	2020	2019
Service cost	\$ 17,622	\$ 13,129	\$ 4,212	\$ 3,524
Interest cost	12,866	13,284	2,420	2,674
Expected return on plan assets	(16,530)	(15,133)	(3,622)	(2,871)
Amortization of prior service cost	2,114	2,524	98	99
Recognized net actuarial loss	6,392	2,624	28	207
Net periodic benefit cost	<u>\$ 22,464</u>	<u>\$ 16,428</u>	<u>\$ 3,136</u>	<u>\$ 3,633</u>

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

Note 7. Short-term and Long-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 Company and subsidiaries that it designates may borrow up to \$50.0 million under the Company's revolving credit facility. Cal Water may borrow up to \$400.0 million under its revolving credit facility. 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 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.

The outstanding borrowings on the Company line of credit were \$105.1 million and \$55.1 million as of June 30, 2020 and December 31, 2019, respectively. There were \$270.0 million and \$120.0 million of borrowings on the Cal Water line of credit as of June 30, 2020 and December 31, 2019, respectively. The average borrowing rate for borrowings on the Company and Cal Water lines of credit during the six months ended June 30, 2020 was 2.13% compared to 3.33% for the same period last year.

Note 8. Income Taxes

The Company adjusts its effective tax rate each quarter to be consistent with the estimated annual effective tax rate. The Company also records the tax effect of unusual or infrequently occurring discrete items.

The provision for income taxes is shown in the tables below:

	Three Months Ended June 30	
	2020	2019
Income tax expense	\$ 1,442	\$ 4,808

	Six Months Ended June 30	
	2020	2019
Income tax (benefit) expense	\$ (3,408)	\$ 2,645

The income tax expense decreased \$3.4 million to \$1.4 million for the three months ended June 30, 2020 as compared to \$4.8 million for the three months ended June 30, 2019. The decrease was mainly due to a decrease in operating income of \$17.4 million for the three months ended June 30, 2020 as compared to the three months ended June 30, 2019.

The income tax expense decreased \$6.0 million to an income tax benefit of \$3.4 million for the six months ended June 30, 2020 as compared to income tax expense of \$2.6 million for the six months ended June 30, 2019. The decrease was mainly due to a decrease in operating income of \$5.4 million for the six months ended June 30, 2020 as compared to the six months ended June 30, 2019.

The Company's effective tax rate for the six months ended June 30, 2020 is 18.5%.

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

The Company is continuing to work with state regulators to finalize the customer net refund of \$121.0 million to ensure compliance with federal normalization rules and will record any adjustments based on state regulator's decisions.

The Company had unrecognized tax benefits of approximately \$12.4 million and \$10.6 million as of June 30, 2020 and 2019, respectively. Included in the balance of unrecognized tax benefits, is approximately \$3.0 million and \$3.1 million, respectively, of tax benefits that, if recognized, would result in an adjustment to the Company's effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly within the next 12 months.

During the six months ended June 30, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. The CARES Act includes provisions relating to refundable payroll tax credits, deferral of certain payroll taxes, technical corrections to tax depreciation methods for qualified improvement property, net operating loss carryback periods, alternative minimum tax credit refunds and modifications to the net interest deduction limitations which are not expected to have a material impact to the Company's consolidated financial statements. The Company evaluated the provisions of the CARES Act and determined that it did not have a material effect on the Company's consolidated financial statements as of June 30, 2020.

Note 9. Regulatory Assets and Liabilities

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 2018 GRC application in July of 2018 requesting rate changes effective 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 key matters not included in the settlement which are currently being litigated are: continuation of the WRAM, MCBA, PCBA, and HCBA. Recognition of regulatory assets for these litigated matters have therefore not been recorded for the period ended June 30, 2020. 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 which commenced 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. Cal Water's 2018 GRC decision has been delayed and Cal Water has been granted interim rate relief beginning January 1, 2020. The results of the 2018 GRC may differ from what is contained in the GRC application. The Company currently expects a decision from the CPUC in the third quarter of 2020.

Regulatory assets and liabilities were comprised of the following as of June 30, 2020 and December 31, 2019:

	Recovery Period	June 30, 2020	December 31, 2019
<i>Regulatory Assets</i>			
Pension and retiree group health	Indefinitely	\$ 207,992	\$ 208,321
Property-related temporary differences (tax benefits flowed through to customers)	Indefinitely	106,306	104,931
Other accrued benefits	Indefinitely	21,444	20,030
Net WRAM and MCBA long-term accounts receivable	1 - 2 years	27,621	25,465
Asset retirement obligations, net	Indefinitely	20,529	19,567
Interim rates long-term accounts receivable	1 year	4,642	4,642
Tank coating	10 years	14,599	13,535
Recoverable property losses	10 years	4,707	5,000
PCBA	1 year	21,465	21,465
Other components of net periodic benefit cost	Indefinitely	5,969	5,145
Other regulatory assets	Various	5,712	5,221
Total Regulatory Assets		\$ 440,986	\$ 433,322
<i>Regulatory Liabilities</i>			
Future tax benefits due to customers		\$ 192,055	\$ 194,501
HCBA		4,271	4,271
CEBA		1,556	2,742
Net WRAM and MCBA long-term payable		90	211
Tax accounting memorandum account		668	806
Cost of capital memorandum account		15	151
1,2,3 trichloropropane (TCP) settlement proceeds		9,288	8,426
Other regulatory liabilities		596	305
Total Regulatory Liabilities		\$ 208,539	\$ 211,413

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

The short-term regulatory assets were \$23.7 million as of June 30, 2020 and \$38.2 million as of December 31, 2019. As of June 30, 2020 and December 31, 2019, the short-term regulatory assets primarily consist of net WRAM and MCBA receivables.

The short-term portions of regulatory liabilities were \$1.6 million as of June 30, 2020 and \$4.5 million as of December 31, 2019. The short-term regulatory liabilities as of June 30, 2020, primarily consist of 2015 GRC CEBA refunds. As of December 31, 2019, the short-term regulatory liabilities primarily consist of TCP settlement proceeds, tax accounting memorandum account refunds, and cost of capital memorandum account refunds.

Note 10. Commitments and Contingencies

Commitments

The Company has significant commitments to purchase water from water wholesalers. The Company also has operating and finance leases for water systems, offices, land easements, licenses, equipment, and other facilities. These commitments and leases are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

As of June 30, 2020, there were no significant changes in these commitments from December 31, 2019.

Contingencies

Groundwater Contamination

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

Other Legal Matters

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. The status of each significant matter is reviewed and assessed for potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, a liability is accrued for the estimated loss in accordance with the accounting standards for contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe when taking into account existing reserves the ultimate resolution of these matters will materially affect the Company's financial position, results of operations, or cash flows. As of June 30, 2020 and December 31, 2019, the Company recognized a liability of \$2.9 million and \$2.5 million, respectively, for known legal matters. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. Any settlement in excess of the cost to litigate is accounted for on a case by case basis, dependent on the nature of the settlement.

Note 11. Fair Value of Financial Assets and Liabilities

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

Specific valuation methods include the following:

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

Long-term debt fair values were estimated using the published quoted market price, if available, or the discounted cash flow analysis, based on the current rates available using a risk-free rate (a U.S. Treasury securities yield curve) plus a risk premium of 1.83%.

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

	June 30, 2020				
	Cost	Fair Value			Total
		Level 1	Level 2	Level 3	
Long-term debt, including current maturities, net	\$ 807,129	—	\$ 979,858	—	\$ 979,858
Advances for construction	195,056	—	82,041	—	82,041
Total	\$ 1,002,185	\$ —	\$ 1,061,899	\$ —	\$ 1,061,899

	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

Note 12. Condensed Consolidating Financial Statements

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

The following tables present the Condensed Consolidating Balance Sheets as of June 30, 2020 and December 31, 2019, the Condensed Consolidating Statements of (Loss) Income for the three and six months ended June 30, 2020 and 2019, and the Condensed Consolidating Statements of Cash Flows for the six months ended June 30, 2020 and 2019 of (i) California Water Service Group, the guarantor of the First Mortgage Bonds and the parent company; (ii) California Water Service Company, the issuer of the First Mortgage Bonds and a 100% owned consolidated subsidiary of California Water Service Group; and (iii) the other 100% owned non-guarantor consolidated subsidiaries of California Water Service Group. No other subsidiary of the Company guarantees the securities.

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of June 30, 2020
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	\$ 1,318	\$ 3,478,007	\$ 280,115	\$ (7,197)	\$ 3,752,243
Less accumulated depreciation and amortization	(1,154)	(1,127,493)	(87,999)	2,219	(1,214,427)
Net utility plant	164	2,350,514	192,116	(4,978)	2,537,816
Current assets:					
Cash and cash equivalents	19,229	87,158	8,001	—	114,388
Receivables and unbilled revenue, net	—	116,442	6,587	—	123,029
Receivables from affiliates	23,391	831	143	(24,365)	—
Other current assets	453	26,448	2,571	—	29,472
Total current assets	43,073	230,879	17,302	(24,365)	266,889
Other assets:					
Regulatory assets	—	436,197	4,789	—	440,986
Investments in affiliates	811,993	—	—	(811,993)	—
Long-term affiliate notes receivable	33,160	—	—	(33,160)	—
Other assets	422	79,519	34,521	(220)	114,242
Total other assets	845,575	515,716	39,310	(845,373)	555,228
TOTAL ASSETS	\$ 888,812	\$ 3,097,109	\$ 248,728	\$ (874,716)	\$ 3,359,933
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders' equity	\$ 782,023	\$ 702,210	\$ 114,972	\$ (817,182)	\$ 782,023
Affiliate long-term debt	—	—	33,160	(33,160)	—
Long-term debt, net	—	784,845	412	—	785,257
Total capitalization	782,023	1,487,055	148,544	(850,342)	1,567,280
Current liabilities:					
Current maturities of long-term debt, net	—	21,753	119	—	21,872
Short-term borrowings	105,100	270,000	—	—	375,100
Payables to affiliates	—	409	23,956	(24,365)	—
Accounts payable	—	122,926	5,290	—	128,216
Accrued expenses and other liabilities	90	48,029	4,245	—	52,364
Total current liabilities	105,190	463,117	33,610	(24,365)	577,552
Deferred income taxes	1,599	215,464	6,901	(9)	223,955
Pension and postretirement benefits other than pensions	—	261,119	—	—	261,119
Regulatory liabilities and other	—	264,351	5,826	—	270,177
Advances for construction	—	194,542	514	—	195,056
Contributions in aid of construction	—	211,461	53,333	—	264,794
TOTAL CAPITALIZATION AND LIABILITIES	\$ 888,812	\$ 3,097,109	\$ 248,728	\$ (874,716)	\$ 3,359,933

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2019
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
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, net	—	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
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 liabilities	—	264,434	7,397	—	271,831
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

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the three months ended June 30, 2020
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$ 164,282	\$ 11,202	\$ —	\$ 175,484
Operating expenses:					
Operations:					
Water production costs	—	68,898	2,244	—	71,142
Administrative and general	—	24,331	2,608	—	26,939
Other operations	—	23,960	2,084	(146)	25,898
Maintenance	—	6,459	263	—	6,722
Depreciation and amortization	23	22,945	1,593	(19)	24,542
Income tax (benefit) expense	(110)	289	245	198	622
Property and other taxes	—	6,244	882	—	7,126
Total operating (income) expenses	(87)	153,126	9,919	33	162,991
Net operating income	87	11,156	1,283	(33)	12,493
Other income and expenses:					
Non-regulated revenue	544	3,923	431	(690)	4,208
Non-regulated expenses	—	(288)	(204)	—	(492)
Other components of net periodic benefit cost	—	(1,300)	(32)	—	(1,332)
Allowance for equity funds used during construction	—	1,705	—	—	1,705
Income tax expense on other income and expenses	(153)	(808)	(52)	193	(820)
Net other income	391	3,232	143	(497)	3,269
Interest:					
Interest expense	371	11,240	547	(545)	11,613
Allowance for borrowed funds used during construction	—	(1,084)	(48)	—	(1,132)
Net interest expense	371	10,156	499	(545)	10,481
Equity earnings of subsidiaries	5,174	—	—	(5,174)	—
Net income	<u>\$ 5,281</u>	<u>\$ 4,232</u>	<u>\$ 927</u>	<u>\$ (5,159)</u>	<u>\$ 5,281</u>

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

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$ 167,450	\$ 11,581	\$ —	\$ 179,031
Operating expenses:					
Operations:					
Water production costs	—	62,143	2,492	—	64,635
Administrative and general	23	23,207	2,204	—	25,434
Other operations	—	20,857	1,829	(144)	22,542
Maintenance	—	5,423	269	—	5,692
Depreciation and amortization	24	20,814	1,508	(20)	22,326
Income tax (benefit) expense	(144)	3,792	455	218	4,321
Property and other taxes	—	6,305	763	—	7,068
Total operating (income) expenses	(97)	142,541	9,520	54	152,018
Net operating income	97	24,909	2,061	(54)	27,013
Other income and expenses:					
Non-regulated revenue	614	4,881	394	(759)	5,130
Non-regulated expenses	—	(3,665)	(235)	—	(3,900)
Other components of net periodic benefit cost	—	(1,164)	(28)	—	(1,192)
Allowance for equity funds used during construction	—	1,686	—	—	1,686
Income tax expense on other income and expenses	(171)	(486)	(43)	213	(487)
Net other income	443	1,252	88	(546)	1,237
Interest:					
Interest expense	467	11,708	617	(614)	12,178
Allowance for borrowed funds used during construction	—	(862)	(62)	—	(924)
Net interest expense	467	10,846	555	(614)	11,254
Equity earnings of subsidiaries	16,923	—	—	(16,923)	—
Net income	\$ 16,996	\$ 15,315	\$ 1,594	\$ (16,909)	\$ 16,996

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF (LOSS) INCOME
For the six months ended June 30, 2020
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$ 279,674	\$ 21,373	\$ —	\$ 301,047
Operating expenses:					
Operations:					
Water production costs	—	120,656	4,462	—	125,118
Administrative and general	—	51,223	5,396	—	56,619
Other operations	—	36,115	4,049	(292)	39,872
Maintenance	—	13,108	687	—	13,795
Depreciation and amortization	47	45,902	3,124	(39)	49,034
Income tax (benefit) expense	(228)	(3,733)	246	400	(3,315)
Property and other taxes	—	12,670	1,684	—	14,354
Total operating (income) expenses	(181)	275,941	19,648	69	295,477
Net operating income	181	3,733	1,725	(69)	5,570
Other income and expenses:					
Non-regulated revenue	1,099	7,514	812	(1,390)	8,035
Non-regulated expenses	—	(8,543)	(403)	—	(8,946)
Other components of net periodic benefit cost	—	(2,701)	(61)	—	(2,762)
Allowance for equity funds used during construction	—	3,319	—	—	3,319
Income tax (expense) benefit on other income and expenses	(308)	110	(98)	389	93
Net other income (loss)	791	(301)	250	(1,001)	(261)
Interest:					
Interest expense	768	21,640	1,102	(1,099)	22,411
Allowance for borrowed funds used during construction	—	(1,973)	(103)	—	(2,076)
Net interest expense	768	19,667	999	(1,099)	20,335
Equity loss of subsidiaries	(15,230)	—	—	15,230	—
Net (loss) income	\$ (15,026)	\$ (16,235)	\$ 976	\$ 15,259	\$ (15,026)

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

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$ 283,524	\$ 21,618	\$ —	\$ 305,142
Operating expenses:					
Operations:					
Water production costs	—	105,569	4,658	—	110,227
Administrative and general	23	49,410	5,098	—	54,531
Other operations	—	36,979	3,674	(290)	40,363
Maintenance	—	11,646	501	—	12,147
Depreciation and amortization	47	41,701	2,987	(41)	44,694
Income tax (benefit) expense	(279)	687	486	436	1,330
Property and other taxes	—	12,811	1,550	—	14,361
Total operating (income) expenses	(209)	258,803	18,954	105	277,653
Net operating income	209	24,721	2,664	(105)	27,489
Other income and expenses:					
Non-regulated revenue	1,227	9,509	813	(1,518)	10,031
Non-regulated expenses	—	(5,703)	(416)	—	(6,119)
Other components of net periodic benefit cost	—	(2,393)	(58)	—	(2,451)
Allowance for equity funds used during construction	—	3,219	—	—	3,219
Income tax expense on other income and expenses	(343)	(1,296)	(101)	425	(1,315)
Net other income	884	3,336	238	(1,093)	3,365
Interest:					
Interest expense	926	22,321	1,233	(1,227)	23,253
Allowance for borrowed funds used during construction	—	(1,638)	(117)	—	(1,755)
Net interest expense	926	20,683	1,116	(1,227)	21,498
Equity earnings of subsidiaries	9,189	—	—	(9,189)	—
Net income	\$ 9,356	\$ 7,374	\$ 1,786	\$ (9,160)	\$ 9,356

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the six months ended June 30, 2020
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net (loss) income	\$ (15,026)	\$ (16,235)	\$ 976	\$ 15,259	\$ (15,026)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:					
Equity loss of subsidiaries	15,230	—	—	(15,230)	—
Dividends received from affiliates	20,671	—	—	(20,671)	—
Depreciation and amortization	47	47,053	3,190	(39)	50,251
Changes in value of life insurance contracts	—	872	—	—	872
Allowance for equity funds used during construction	—	(3,319)	—	—	(3,319)
Changes in operating assets and liabilities	(593)	(10,083)	137	—	(10,539)
Other changes in noncurrent assets and liabilities	1,361	(4,089)	483	10	(2,235)
Net cash provided by operating activities	21,690	14,199	4,786	(20,671)	20,004
Investing activities:					
Utility plant expenditures	—	(127,959)	(5,578)	—	(133,537)
Business acquisition, net of cash acquired	—	—	(37,655)	—	(37,655)
Investment in affiliates	(70,724)	—	—	70,724	—
Changes in affiliate advances	5,783	2,790	4	(8,577)	—
Issuance of affiliate short-term borrowings	(3,500)	—	—	3,500	—
Issuance of affiliate long-term borrowings	(4,076)	—	—	4,076	—
Reduction of affiliates long-term debt	1,104	—	—	(1,104)	—
Net cash used in investing activities	(71,413)	(125,169)	(43,229)	68,619	(171,192)
Financing Activities:					
Short-term borrowings	50,000	220,000	—	—	270,000
Repayment of short-term borrowings	—	(70,000)	—	—	(70,000)
Investment from affiliates	—	37,119	33,605	(70,724)	—
Changes in affiliate advances	—	(5,706)	(2,871)	8,577	—
Proceeds from affiliate short-term borrowings	—	—	3,500	(3,500)	—
Proceeds from affiliate long-term borrowings	—	—	4,076	(4,076)	—
Repayment of affiliates long-term borrowings	—	—	(1,104)	1,104	—
Repayment of long-term debt	—	(1,244)	(49)	—	(1,293)
Advances and contributions in aid of construction	—	12,493	76	—	12,569
Refunds of advances for construction	—	(4,340)	(1)	—	(4,341)
Repurchase of common stock	(1,479)	—	—	—	(1,479)
Issuance of common stock	38,006	—	—	—	38,006
Dividends paid to non-affiliates	(20,671)	—	—	—	(20,671)
Dividends paid to affiliates	—	(19,450)	(1,221)	20,671	—
Net cash provided by financing activities	65,856	168,872	36,011	(47,948)	222,791
Change in cash, cash equivalents, and restricted cash	16,133	57,902	(2,432)	—	71,603
Cash, cash equivalents, and restricted cash at beginning of period	3,096	29,679	10,523	—	43,298
Cash, cash equivalents, and restricted cash at end of period	\$ 19,229	\$ 87,581	\$ 8,091	—	\$ 114,901

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

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income	\$ 9,356	\$ 7,374	\$ 1,786	\$ (9,160)	\$ 9,356
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity earnings of subsidiaries	(9,189)	—	—	9,189	—
Dividends received from affiliates	19,000	—	—	(19,000)	—
Depreciation and amortization	47	42,717	3,021	(41)	45,744
Changes in value of life insurance contracts	—	(3,147)	—	—	(3,147)
Allowance for equity funds used during construction	—	(3,219)	—	—	(3,219)
Changes in operating assets and liabilities	63	(16,581)	(319)	—	(16,837)
Other changes in noncurrent assets and liabilities	3,763	6,289	1,430	12	11,494
Net cash provided by operating activities	23,040	33,433	5,918	(19,000)	43,391
Investing activities:					
Utility plant expenditures	—	(116,384)	(5,552)	—	(121,936)
Changes in affiliate advances	(1,453)	2,856	(165)	(1,238)	—
Issuance of affiliate short-term borrowings	(4,300)	—	—	4,300	—
Reduction of affiliates long-term debt	848	—	—	(848)	—
Net cash used in investing activities	(4,905)	(113,528)	(5,717)	2,214	(121,936)
Financing Activities:					
Short-term borrowings	—	190,000	—	—	190,000
Repayment of short-term borrowings	—	(90,000)	—	—	(90,000)
Changes in affiliate advances	(17)	2,430	(3,651)	1,238	—
Proceeds from affiliate short-term borrowings	—	—	4,300	(4,300)	—
Repayment of affiliates long-term borrowings	—	—	(848)	848	—
Issuance of long-term debt, net of expenses	—	398,442	—	—	398,442
Repayment of long-term debt	—	(401,256)	(102)	—	(401,358)
Advances and contributions in aid for construction	—	12,679	76	—	12,755
Refunds of advances for construction	—	(3,554)	(1)	—	(3,555)
Repurchase of common stock	(2,203)	—	—	—	(2,203)
Issuance of common stock	829	—	—	—	829
Dividends paid to non-affiliates	(19,000)	—	—	—	(19,000)
Dividends paid to affiliates	—	(18,348)	(652)	19,000	—
Net cash (used in) provided by financing activities	(20,391)	90,393	(878)	16,786	85,910
Change in cash, cash equivalents, and restricted cash	(2,256)	10,298	(677)	—	7,365
Cash, cash equivalents, and restricted cash at beginning of period	3,779	34,238	9,698	—	47,715
Cash, cash equivalents, and restricted cash at end of period	\$ 1,523	\$ 44,536	\$ 9,021	\$ —	\$ 55,080

Note 13. Acquisition

On March 27, 2020, the Company's wholly owned subsidiary, Washington Water, received regulatory approval from the Washington Utilities and Transportation Commission (WUTC) for Washington Water's application for the sale and transfer of assets of Rainier View Water Company. Washington Water paid \$37.7 million in cash to take control of the water system on June 1, 2020. The acquisition of Rainier View Water doubles the size of Washington Water's operations and solidifies the Company's position as the largest investor-owned water company in the state of Washington, regulated by the WUTC. Rainier View Water serves approximately 35,000 people in parts of Graham, Spanaway, Puyallup, Gig Harbor, and other nearby areas through approximately 18,500 customer connections in 27 water systems.

Assets acquired were \$32.6 million, including utility plant of \$31.1 million, and liabilities of \$23.5 million were assumed, including \$21.2 million of contributions in aid of construction. Goodwill of \$28.5 million was recorded and consists largely of the synergies expected from combining the operations of Rainier View Water Company and Washington Water. The Company is in the process of finalizing the valuation of certain intangible assets; therefore, the goodwill recorded is subject to further refinement upon completion.

The Company expects all the goodwill from the acquisition to be deductible for tax purposes.

Condensed balance sheets and pro forma results of operations for this acquisition have not been presented since the impact of the acquisition was not material.

Item 2

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

Dollar amounts in thousands unless otherwise stated

FORWARD LOOKING STATEMENTS

This quarterly report, including all documents incorporated by reference, contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this quarterly report are based on currently available information, expectations, estimates, assumptions and projections, and our management's beliefs, assumptions, judgments and expectations about us, the water utility industry and general economic conditions, including statements regarding the anticipated impact on our business of the ongoing COVID-19 pandemic and related public health measures. These statements are not statements of historical fact. When used in our documents, statements that are not historical in nature, including words like "expects," "intends," "plans," "believes," "may," "estimates," "assumes," "anticipates," "projects," "predicts," "forecasts," "should," "seeks," or variations of these words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are based on numerous assumptions that we believe are reasonable, but they are open to a wide range of uncertainties and business risks. Consequently, actual results may vary materially from what is contained in a forward-looking statement.

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

- the impact of the ongoing COVID-19 pandemic and related public health measures;
- our 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 outcome and timeliness of regulatory commissions' actions concerning rate relief and other actions, including with respect to the 2018 GRC;
- increased risk of inverse condemnation losses as a result of climate conditions;
- our ability 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;
- our ability to complete, successfully integrate and achieve anticipated benefits from announced acquisitions;
- the impact of weather, climate, natural disasters, and actual or threatened public health emergencies, including disease outbreaks, 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 in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

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

CRITICAL ACCOUNTING POLICIES

We maintain our accounting records in accordance with GAAP and as directed by the Commissions to which our operations are subject. The process of preparing financial statements in accordance with GAAP requires the use of estimates on the part of management. The estimates used by management are based on historic experience and an understanding of current facts and circumstances. Management believes that the following accounting policies are critical because they involve a higher degree of complexity and judgment, and can have a material impact on our results of operations, financial condition, and cash flows of the business. These policies and their key characteristics are discussed in detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. They include:

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

For the six months ended June 30, 2020, there were no changes in the methodology for computing critical accounting estimates, no additional accounting estimates met the standards for critical accounting policies, and there were no material changes to the important assumptions underlying the critical accounting estimates.

RESULTS OF SECOND QUARTER 2020 OPERATIONS
 COMPARED TO SECOND QUARTER 2019 OPERATIONS

Dollar amounts in thousands unless otherwise stated

Overview*Net Income*

Net income for the three months ended June 30, 2020 was \$5.3 million or \$0.11 earnings per diluted common share, compared to net income of \$17.0 million or \$0.35 earnings per diluted common share for the three months ended June 30, 2019.

The \$11.7 million decrease in net income was primarily due to lack of resolution of the 2018 GRC, which meant that no revenue was recorded in the second quarter from general rate relief and previously approved regulatory mechanisms. Other impacts to the quarterly results included water production costs increase of \$6.5 million, of which \$5.7 million would have been offset by regulatory mechanisms requested in the GRC, administrative and general expense increase of \$1.5 million, which would have been subject to \$3.3 million of benefit costs offsets pursuant to regulatory mechanisms requested in the 2018 GRC, and depreciation expense increase of \$2.2 million.

If during the second quarter, the CPUC had approved the settlement agreement and the positions proposed by Cal Water on October 8, 2019 (the "Cal Water Proposal"), we estimate it would have added operating revenue of \$29.1 million, subject to income taxes of 19.3%, and it would have had a \$2.3 million decrease in income tax expense for Tax Cuts and Jobs Act income tax refunds for the three months ended June 30, 2020.

In addition, a \$3.0 million increase in unrealized gain on certain benefit plan investments partially offset the decrease to net income.

The CPUC granted Cal Water's request to continue charging existing rates beginning January 1, 2020 as interim rates, and is allowing Cal Water to track the difference between interim rates and rates that are eventually approved. We expect that the difference in interim and approved rates will be collected through customer surcharges over 12 months. The CPUC has the authority to adopt the settlement agreement or render a different decision. Had the CPUC approved the Cal Water Proposal during the second quarter, we estimate that the proposed new rates would have added the following to our second quarter results: \$10.9 million of revenue for delayed service charge and quantity rate increases and \$18.2 million of revenue from disputed regulatory mechanisms which will be recognized if approved in the period in which such approval occurs.

Operating Revenue

Operating revenue decreased \$3.5 million, or 2.0%, to \$175.5 million in the second quarter of 2020 as compared to the second quarter of 2019, with such change attributed to the following:

Net change due to rate changes, usage, and other (1)	\$	4,528
WRAM Revenue (2)		(23,392)
MCBA Revenue (3)		13,999
Other balancing account revenue (4)		(1,943)
Deferral of revenue (5)		3,261
Net operating revenue decrease	\$	(3,547)

- The net change due to rate changes, usage, and other in the above table was mainly driven by a \$4.5 million increase in volumetric revenue due to a 2.0% increase in customer usage and rate increases. The components of the rate increases are as follows:

General rate case	178
Purchased water and pump tax offsets	1,605
Rate base offsets	716
Total increase in rates	\$ 2,499

- WRAM revenue is the variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts. In the second quarter of 2020, no WRAM revenue was recorded due to the delay in the approval of

the 2018 GRC. In the second quarter of 2019, we recognized \$23.4 million of WRAM revenue as actual billed volumetric revenue was lower than adopted volumetric revenue.

3. The MCBA revenue increase is due to the delay in the approval of the 2018 GRC as no MCBA revenue was recorded in the second quarter of 2020. In the second quarter of 2019, we recognized a \$14.0 million decrease to revenue as actual water production costs were lower than adopted water production costs. As required by the MCBA mechanism, the difference in actual water production costs and adopted water production costs in California is recorded to operating revenue.
4. The other balancing account revenue consists of the pension, conservation and health care balancing account revenues. Pension and conservation balancing account revenues are the differences between actual expenses and adopted rate recovery. Health care balancing account revenue is 85% of the difference between actual health care expenses and adopted rate recovery. In the second quarter of 2020, no adjustment was recorded for the pension cost and health cost balancing accounts due to the delay in the approval of the 2018 GRC. In the second quarter of 2019, actual pension costs were above the adopted pension costs, while actual health care costs were below the adopted health care costs. A net increase to revenue of \$0.6 million was recognized for the differences. In addition, there was a decrease in actual conservation expenses relative to adopted costs in the second quarter of 2020 as compared to the second quarter 2019 of \$1.3 million.
5. The deferral of revenue consists of amounts that are expected to be collected from customers beyond 24 months following the end of the accounting period in which these revenues were recorded. The deferral decreased in the second quarter of 2020 as compared to the second quarter of 2019 due to a decrease in the balancing account revenue expected to be collected beyond 24 months.

Total Operating Expenses

Total operating expenses increased \$11.0 million, or 7.2%, to \$163.0 million in the second quarter of 2020, as compared to \$152.0 million in the second quarter of 2019.

Water production costs consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 43.6% of total operating expenses in the second quarter of 2020, as compared to 42.5% of total operating expenses in the second quarter of 2019. Water production costs increased 10.1% in the second quarter of 2020 as compared to the same period last year mainly due to increased rates from our purchased water wholesalers, changes in water production mix, and an increase in customer usage.

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

	Three Months Ended June 30	
	2020	2019
Well production	44 %	46 %
Purchased	50 %	49 %
Surface	6 %	5 %
Total	100 %	100 %

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

	Three Months Ended June 30		
	2020	2019	Change
Purchased water	\$ 59,738	\$ 53,671	\$ 6,067
Purchased power	8,128	7,871	257
Pump taxes	3,276	3,093	183
Total	\$ 71,142	\$ 64,635	\$ 6,507

Administrative and general and other operations expenses increased \$4.9 million to \$52.8 million in the second quarter of 2020, primarily due to a \$2.7 million increase of costs associated with deferred WRAM revenue, a \$2.1 million increase in employee pension benefit costs, a \$1.5 million increase in uninsured loss costs, a \$0.7 million increase in outside service costs, and a \$0.5 million increase in bad debt expense which were partially offset by a decrease of \$1.1 million in water conservation program costs and \$0.9 million of workers compensation costs.

Maintenance expense increased \$1.0 million, or 18.1%, to \$6.7 million in the second quarter of 2020, as compared to \$5.7 million in the second quarter of 2019, due to increased costs for repairs of services and mains. Depreciation and amortization expense increased \$2.2 million, or 9.9%, to \$24.5 million in the second quarter of 2020, as compared to \$22.3 million in the second quarter of 2019, due to capital additions.

Income taxes decreased \$3.7 million, or 85.6%, to \$0.6 million in the second quarter of 2020, as compared to \$4.3 million in the second quarter of 2019. The decrease was due to a decrease in operating income.

Property and other taxes was \$7.1 million in both in the second quarter of 2020 and 2019.

Other Income and Expenses

Net other income increased \$2.0 million in the second quarter of 2020, mostly due to a \$3.0 million increase in unrealized gain on certain benefit plan investments, which was partially offset by a \$0.9 million decrease in non-regulated revenue.

Interest Expense

Net interest expense decreased \$0.8 million, or 6.9%, to \$10.5 million in the second quarter of 2020, as compared to \$11.3 million in the second quarter of 2019. The decrease was due primarily to reduced interest rates in the second quarter of 2020 as compared to the second quarter of 2019.

RESULTS OF THE SIX MONTHS ENDED JUNE 30, 2020 OPERATIONS
COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2019 OPERATIONS
Dollar amounts in thousands unless otherwise stated

Overview

Net (Loss) Income

Net loss for the six months ended June 30, 2020 was \$15.0 million or \$0.31 loss per diluted common share, compared to net income of \$9.4 million or \$0.19 earnings per diluted common share for the six months ended June 30, 2019.

The \$24.4 million decrease in net income was primarily due to lack of resolution of the 2018 GRC, which meant that no revenue was recorded in the six month period from general rate relief and previously approved regulatory mechanisms. Other impacts to the year-to-date results included water production costs increase of \$14.9 million, of which \$10.7 million would have been offset by regulatory mechanisms requested in the 2018 GRC, administrative and general expense increase of \$2.1 million, which would have been subject to \$6.2 million of benefit costs offsets pursuant to regulatory mechanisms requested in the 2018 GRC, and depreciation expense increase of \$4.3 million.

If during the six month period ended June 30, 2020, the CPUC had approved the settlement agreement and the Cal Water Proposal, we estimate it would have added operating revenue of \$45.8 million, subject to income taxes of 19.3%, and it would have had a \$4.1 million decrease in income tax expense for Tax Cuts and Jobs Act income tax refunds for the six months ended June 30, 2020.

Additionally, a \$4.0 million unrealized loss on certain benefit plan investments during the six-month period ended June 30, 2020 decreased net income.

The CPUC granted Cal Water's request to continue charging existing rates beginning January 1, 2020 as interim rates, and is allowing Cal Water to track the difference between interim rates and rates that are eventually approved. We expect that the difference in interim and approved rates will be collected through customer surcharges over 12 months. The CPUC has the authority to adopt the settlement agreement or render a different decision. Had the CPUC approved the Cal Water Proposal, we estimate that the proposed new rates would have added the following to the results of the six months ended June 30, 2020: \$19.8 million of revenue for delayed service charge and quantity rate increases and \$26.0 million of revenue from disputed regulatory mechanisms which will be recognized if approved in the period in which such approval occurs.

COVID-19

At the end of 2019, a COVID-19 outbreak was reported to have surfaced in Wuhan, China, and has since spread to a large number of other countries, including the United States. In March of 2020, the World Health Organization characterized the outbreak as a pandemic. During the month of March, all of the states in which we operate enacted shelter-in-place and social distancing ordinances that resulted in temporary closures of non-essential businesses and self-quarantining of non-essential workers. Although such measures have been partially rescinded in certain areas, public health restrictions remain in place in all of the states in which we operate. As an "essential business" during times of emergencies pursuant to the U.S. Critical Infrastructures Protection Act of 2001, we are working to continue to provide high quality water and

wastewater services to our two million customers. For the six months ended June 30, 2020 and through July 30, 2020, the COVID-19 pandemic has not had a significant impact on our business or operations. We have, however, increased our allowance for credit losses as we have ceased all shutoffs for nonpayment during the pandemic and we are expecting segments of our customer base to continue to experience employment layoffs and business closures that negatively impact their ability to pay utility bills. We have also incurred costs to promote the health and safety of our employees and facilities.

If we need to close any of our facilities due to outbreaks of COVID-19 or if a critical number of our employees become too ill to work, our business operations could be materially adversely affected in a rapid manner. The impact of the COVID-19 pandemic is fluid and continues to evolve, and therefore, we cannot predict the extent to which our business, results of operations, financial condition or liquidity will ultimately be impacted.

Operating Revenue

Operating revenue decreased \$4.1 million, or 1.3%, to \$301.0 million in the first six months of 2020 as compared to the first six months of 2019, with such change attributed to the following:

Net change due to rate changes, usage, and other (1)	\$ 22,175
WRAM Revenue (2)	(41,893)
MCBA Revenue (3)	22,663
Other balancing account revenue (4)	(3,382)
Deferral of revenue (5)	(3,658)
Net operating revenue decrease	<u>\$ (4,095)</u>

1. The net change due to rate changes, usage, and other in the above table was mainly driven by a \$16.0 million increase in volumetric revenue due to a 6.0% increase in customer usage and rate increases. In addition, there was a \$4.9 million increase in accrued unbilled revenue. The components of the rate increases are as follows:

General rate case	\$ 285
Escalation rate increases	518
Purchased water and pump tax offsets	2,638
Rate base offsets	1,139
Total increase in rates	<u>\$ 4,580</u>

2. WRAM revenue is the variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts. In the first six months of 2020, no WRAM revenue was recorded due to the delay in the approval of the 2018 GRC. In the first six months of 2019, we recognized \$41.9 million of WRAM revenue as actual billed volumetric revenue was lower than adopted volumetric revenue.
3. The MCBA revenue increase is due to the delay in the approval of the 2018 GRC as no MCBA revenue was recorded in the first six months of 2020. In the first six months of 2019, we recognized a \$22.7 million decrease to revenue as actual water production costs were lower than adopted water production costs. As required by the MCBA mechanism, the difference in actual water production costs and adopted water production costs in California is recorded to operating revenue.
4. The other balancing account revenue consists of the pension, conservation and health care balancing account revenues. Pension and conservation balancing account revenues are the differences between actual expenses and adopted rate recovery. Health care balancing account revenue is 85% of the difference between actual health care expenses and adopted rate recovery. In the first six months of 2020, no adjustment was recorded for the pension cost and health cost balancing accounts due to the delay in the approval of the 2018 GRC. In the first six months of 2019, actual pension costs were above the adopted pension costs, while actual health care costs were below the adopted health care costs. A net increase to revenue of \$1.4 million was recognized for the differences. In addition, there was a decrease in actual conservation expenses relative to adopted costs in the first six months of 2020 as compared to the first six months of 2019 of \$2.0 million.
5. The deferral of revenue consists of amounts that are expected to be collected from customers beyond 24 months following the end of the accounting period in which these revenues were recorded. The deferral increased in the first

six months of 2020 as compared to the first six months of 2019 as we elected to defer a portion of our net WRAM receivable that was filed for recovery in 2020 to 2021 due to the COVID-19 pandemic.

Total Operating Expenses

Total operating expenses increased \$17.8 million, or 6.4%, to \$295.5 million in the first six months of 2020, as compared to \$277.7 million in the first six months of 2019.

Water production costs consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 42.3% of total operating expenses in the first six months of 2020, as compared to 39.7% of total operating expenses in the first six months of 2019. Water production costs increased 13.5% in the first six months of 2020 as compared to the same period last year mainly due to an increase in customer usage, changes in water production mix, and an increase in rates from our purchased water wholesalers.

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

	Six Months Ended June 30	
	2020	2019
Well production	45 %	46 %
Purchased	49 %	49 %
Surface	6 %	5 %
Total	100 %	100 %

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

	Six Months Ended June 30		
	2020	2019	Change
Purchased water	\$ 105,087	\$ 91,887	\$ 13,200
Purchased power	13,904	13,101	803
Pump taxes	6,127	5,239	888
Total	\$ 125,118	\$ 110,227	\$ 14,891

Administrative and general and other operations expenses increased \$1.6 million, or 1.7%, to \$96.5 million in the first six months of 2020, as compared to \$94.9 million in the first six months of 2019. The increase was primarily due to a \$3.6 million increase in employee pension benefit costs, \$1.1 million in consulting service cost, \$0.8 million increase in uninsured loss costs, \$0.8 million increase in water treatment and lab testing costs, \$0.7 million increase in rent and facility costs, and \$0.6 million increase in bad debt expense, which were partially offset by a \$3.1 million decrease of costs associated with deferred WRAM revenue, \$1.6 million decrease in water conservation program costs, and \$0.9 million decrease in employee healthcare costs.

Maintenance expense increased \$1.6 million, or 13.6%, to \$13.8 million in the first six months of 2020, as compared to \$12.1 million in the first six months of 2019, mostly due to repairs for services and mains.

Depreciation and amortization expense increased \$4.3 million, or 9.7%, to \$49.0 million in the first six months of 2020, as compared to \$44.7 million in the first six months of 2019, mostly due to capital additions.

Income taxes decreased \$4.6 million, or 349.2%, to an income tax benefit of \$3.3 million in the first six months of 2020, as compared to income tax expense of \$1.3 million in the first six months of 2019. The decrease was due to a decrease in operating income.

Property and other taxes was \$14.4 million in the first six months of 2020 and 2019.

Other Income and Expenses

Net other income decreased \$3.7 million to a net other loss of \$0.3 million in the first six months of 2020, as compared to a net other income of \$3.4 million in the first six months of 2019, due primarily to a \$4.0 million decrease from the unrealized loss from certain benefit plan investments due to market conditions.

Interest Expense

Net interest expense decreased \$1.2 million, or 5.4%, to \$20.3 million in the first six months of 2020, as compared to \$21.5 million in the first six months of 2019. The decrease was due primarily to a decrease interest rates in the first six months of 2020 as compared to the same period last year.

REGULATORY MATTERS

2020 California Regulatory Activity

2018 GRC Filing

As of July 30, 2020, Cal Water has not received a decision resolving its 2018 GRC. The parties addressed most issues through a proposed settlement and litigated the remaining issues. The delay in the resolution of the case has had a material adverse impact on our revenue, operating results, and earnings per share on an interim basis but this impact is expected to be reversed at the time of a final decision through recognition of interim rate recovery. Continued delay will significantly impact operating results for the third quarter of 2020. On April 28, 2020, Cal Water filed a motion urging the CPUC to adopt a final decision by July 1, 2020, but proposing a deferral of rate increases until January 1, 2021. If approved, the impact of the deferral will be tracked in the interim rate memorandum account. On June 25, 2020, the CPUC extended the statutory deadline for resolution of the case from July 1, 2020 to September 30, 2020.

2020 Cost of Capital Application

On March 11, 2020, the CPUC granted Cal Water and three other large water companies an extension to May 1, 2021 to file their cost of capital application.

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 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 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 March and April of 2020, Cal Water submitted advice letters to true up the revenue under-collections for the 2019 annual WRAMs/MCBAs of its regulated districts. A net under-collection of \$27.1 million is being recovered from customers in the form of 12 and 18 month surcharges. Due to the COVID 19 pandemic, we elected to adjust the 2019 WRAM filing so that the new rates would only be implemented in districts where overall customer bills would not be increased. As a result, approximately \$18.8 million of the \$45.9 million of net WRAM/MCBA additions from 2019 were deferred to 2021. The new rates incorporate net WRAM/MCBA balances that were previously approved for recovery, and became effective in April of 2020.

Polyfluoroalkyl Substances Memorandum Account (PFAS MA)

Public water systems have been ordered by the State Water Resources Control Board to detect, monitor, and report perfluorooctanoic and perfluorooctanesulfonic acid in drinking water. Cal Water has begun sampling its wells for these contaminants, and anticipates incurring substantial costs in order to comply. In the first quarter of 2020, Cal Water submitted an advice letter to establish the PFAS MA, which would give Cal Water the opportunity to track and recover incremental costs related to compliance with the order. The PFAS MA was suspended pending further review by the CPUC. The CPUC issued, and then withdrew, a proposed resolution that would have rejected the request in its entirety. On June 19, 2020, the CPUC proposed a new resolution that would limit potential cost recovery to certain incremental PFAS-related expenses, but not capital costs, due to the current lack of a maximum contaminant level. The CPUC is scheduled to vote on the proposed resolution on August 6, 2020.

Low-Income Water Affordability Proceeding

On July 3, 2020, the assigned Commissioner of a proceeding considering low-income assistance issued a proposed decision that applies to Cal Water and other Class A water companies (the Joint Parties). The proposed decision would require the Joint Parties to replace their full decoupling mechanisms with a limited price adjustment mechanism in their next GRC. A proposed decision must be approved by the full CPUC to go into effect. The full CPUC could modify or reject the proposed decision and will first consider the matter, at the earliest, at its meeting on August 6, 2020. Cal Water management disagrees with the conclusions of the proposed decision and believes there is evidence that the mandated mechanism would increase rates for low-income customers. Management also believes the proposed decision would reinstate the incentive of utilities to maximize water sales, despite clear California state policy goals to improve water use efficiency. Cal Water plans to communicate this position to the full CPUC in an effort to convince them to adopt a different decision.

Regulatory Activity - Other States

Rainier View Water Company (Washington Water)

On March 27, 2020, the Washington Utilities and Transportation Commission (WUTC) approved Washington Water's application for the sale and transfer of assets of Rainier View Water Company. Washington Water took control of the water system on June 1, 2020.

LIQUIDITY

Cash flow from Operations

Cash flow from operations for the first six months of 2020 was \$20.0 million compared to \$43.4 million for the same period in 2019. Cash generated by operations varies during the year due to customer billings, and timing of collections and contributions to our benefit plans.

During the first six months of 2020, we made contributions of \$16.8 million to our employee pension plan compared to contributions of \$6.3 million during the first six months of 2019. During the first six months of 2020, we made contributions of \$3.9 million to the other postretirement benefit plans compared to contributions of \$3.4 million during the first six months of 2019. The full-year 2020 estimated cash contribution to the pension plans and other postretirement benefits plans are expected to be approximately \$38.0 million and \$7.5 million, respectively.

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 unsecured revolving credit facilities in the event cash is not available to cover operating and utility plant costs during the winter period. Due to the uncertainty of the effect of the COVID-19 pandemic, during the first quarter of 2020, we borrowed on our unsecured revolving credit facilities to provide substantial additional liquidity to manage our business (as described below under Financing Activities). The increase in cash flows during the summer allows short-term borrowings to be paid down. Customer water usage can be lower than normal in drought years and when greater-than-normal precipitation falls in our service areas or temperatures are lower than normal, especially in the summer months.

Investing Activities

During the first six months of 2020 and 2019, we used \$133.5 million and \$121.9 million, respectively, of cash for Company-funded and developer-funded utility plant expenditures. Annual expenditures fluctuate each year due to the availability of construction resources and our ability to obtain construction permits in a timely manner. For 2020, we estimate utility plant expenditures to be between \$260.0 million and \$290.0 million. We also paid \$37.7 million for the acquisition of Rainier View Water Company during the second quarter of 2020.

Financing Activities

Net cash provided by financing activities was \$222.8 million during the first six months of 2020 compared to \$85.9 million of net cash provided by financing activities for the same period in 2019. For 2020, this includes our issuance of \$37.1 million of Company common stock through our at-the-market equity program and \$0.9 million through our employee stock purchase plan.

During the first six months of 2020 and 2019, we borrowed \$270.0 million and \$190.0 million, respectively, on our unsecured revolving credit facilities. The borrowings on our unsecured revolving credit facilities in 2020 were to provide substantial additional liquidity to manage our business in connection with economic uncertainty and financial market

volatility caused by the COVID-19 pandemic. We made a repayment on our unsecured revolving credit facilities of \$70.0 million and \$90.0 million during the first six months of 2020 and 2019, respectively.

The undercollected net WRAM and MCBA receivable balances were \$52.6 million and \$61.3 million as of June 30, 2020 and 2019, respectively. The undercollected balances were primarily financed by Cal Water using short-term and long-term financing arrangements to meet operational cash requirements. Interest on the undercollected balances, which represents the interest recoverable from customers, is limited to the then-current 90-day commercial paper rates which typically are significantly lower than Cal Water's short and long-term financing rates.

Short-Term and Long-Term Financing

During the first six months of 2020, we utilized cash generated from operations, borrowings on the unsecured revolving credit facilities, and cash received from the sale of Company common stock through our at-the-market equity program to fund operations and capital investments.

Bond principal and other long-term debt payments were \$1.3 million and \$401.4 million during the first six months of 2020 and 2019, respectively.

In future periods, management anticipates funding our utility plant needs through a relatively balanced approach between debt and equity.

Short-term liquidity is provided by our unsecured revolving credit facilities and internally generated funds. Long-term financing is accomplished through the use of both debt and equity. However, the recent COVID-19 pandemic, which has caused disruption in the capital markets, could make financing more difficult and/or expensive. To mitigate this risk, we borrowed \$100.0 million on our unsecured revolving credit facilities to provide substantial additional liquidity. The Company and subsidiaries that it designates may borrow up to \$150.0 million under the Company's revolving credit facility. Cal Water may borrow up to \$400.0 million under its revolving credit facility; however, all borrowings must be repaid within 24 months unless a different period is required or authorized by the CPUC. The proceeds from the unsecured revolving credit facilities may be used for working capital purposes, including the short-term financing of utility plant projects.

As of June 30, 2020 and December 31, 2019, there were short-term borrowings of \$375.1 million and \$175.1 million, respectively, outstanding on the unsecured revolving credit facilities.

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

Both short-term credit agreements contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, these unsecured credit agreements contain financial covenants governing the Company and its subsidiaries' consolidated total capitalization ratio not to exceed 66.7% and an interest coverage ratio of three or more. As of June 30, 2020, we are in compliance with all of the covenant requirements and are eligible to use the full amount of the undrawn portion of our unsecured revolving credit facilities.

Long-term financing, which includes First Mortgage Bonds, other debt securities, and common stock, has typically been used to replace short-term borrowings and fund utility plant expenditures. Internally generated funds, after making dividend payments, provide positive cash flow, but have not been at a level to meet the needs of our utility plant expenditure requirements. Management expects this trend to continue given our planned utility plant expenditures for the next five years. Some utility plant expenditures are funded by payments received from developers for contributions in aid of construction or advances for construction. Funds received for contributions in aid of construction are non-refundable, whereas funds classified as advances in construction are generally refundable over 40 years. Management believes long-term financing is available to meet our cash flow needs through issuances in both debt and equity instruments.

Dividends

During the first six months of 2020, our quarterly common stock dividend payments were \$0.4250 per share compared to \$0.3950 per share during the first six months of 2019. For the full year 2019, the payout ratio was 60.3% of net income. On a long-term basis, our goal is to achieve a dividend payout ratio of 60% of net income accomplished through future earnings growth.

At the July 29, 2020 meeting, the Company's Board of Directors declared the third quarter dividend of \$0.2125 per share payable on August 21, 2020, to stockholders of record on August 10, 2020. This was our 302nd consecutive quarterly dividend.

2020 Financing Plan

We intend to fund our utility plant needs in future periods through a relatively balanced approach between long-term debt and equity. The Company and Cal Water have a syndicated unsecured revolving line of credit of \$150.0 million and \$400.0 million, respectively, for short-term borrowings. As of June 30, 2020, the Company's and Cal Water's availability on these unsecured revolving lines of credit was \$44.9 million and \$130.0 million, respectively. As the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our financing needs.

Book Value and Stockholders of Record

Book value per common share was \$15.83 at June 30, 2020 compared to \$16.07 at December 31, 2019. There were approximately 1,946 stockholders of record for our common stock as of May 11, 2020.

Utility Plant Expenditures

During the first six months of 2020, utility plant expenditures totaled \$133.5 million for Company-funded and developer-funded projects. For 2020, we estimate utility plant expenditures to be between \$260.0 million and \$290.0 million. We do not control third-party-funded utility plant expenditures and therefore are unable to estimate the amount of such projects for 2020.

As of June 30, 2020, construction work in progress was \$289.1 million. Construction work in progress includes projects that are under construction but not yet complete and placed in service.

WATER SUPPLY

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

Historically, approximately half of our annual water supply is pumped from wells. State groundwater management agencies operate differently in each state. Some of our wells extract ground water from water basins under state ordinances. These are adjudicated groundwater basins, in which a court has settled the dispute between landowners or other parties over how much annual groundwater can be extracted by each party. All of our adjudicated groundwater basins are located in the State of California. Our annual groundwater extraction from adjudicated groundwater basins approximates 6.4 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. Well pump taxes were \$3.3 million and \$3.1 million for the three months ended June 30, 2020 and 2019, respectively. For the six months ended June 30, 2020 and 2019, well pump taxes were \$6.1 million and \$5.2 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 June 9, 2020, the State of California snowpack water content during the 2020-2021 water year for the northern Sierra region is 7% of long-term averages (per

the California Department of Water Resources, Daily Drought Information Summary). The northern Sierra region is the most important for the state's urban water supplies. The central and southern portions of the Sierras also have recorded 0% and 4%, 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.

CONTRACTUAL OBLIGATIONS

During the six months ended June 30, 2020, there were no material changes in contractual obligations outside the normal course of business.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

Item 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

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

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2020. Based on that evaluation, we concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes to Internal Control over Financial Reporting

There was no change in our internal controls over financial reporting that occurred during the quarter ended June 30, 2020, that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1.

LEGAL PROCEEDINGS

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

Item 1A.

RISK FACTORS

There have been no material changes to the Company's risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year-ended December 31, 2019 filed with the SEC on February 27, 2020, except for the additional risk factor set forth in Part II, Item 1A of the Company's Quarterly Report on Form 10-Q for the quarter-ended March 31, 2020 filed with the SEC.

Item 6.

EXHIBITS

Exhibit	Description
4.0	The Company agrees to furnish upon request to the Securities and Exchange Commission a copy of each instrument defining the rights of holders of long-term debt of the Company
31.1	Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from California Water Service Group's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income (Loss), (iii) Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to the Condensed Consolidated Financial Statements.
104	The cover page from California Water Service Group's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in iXBRL (included as exhibit 101)

SIGNATURES

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

CALIFORNIA WATER SERVICE GROUP

Registrant

July 30, 2020

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

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

I, Martin A. Kropelnicki, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2020, of California Water Service Group;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2020

By: /s/ Martin A. Kropelnicki

MARTIN A. KROPELNICKI

President and Chief Executive Officer

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

I, Thomas F. Smegal III, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2020, of California Water Service Group;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 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 certifies that this quarterly report on Form 10-Q for the period ended June 30, 2020 fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of California Water Service Group.

Date: July 30, 2020

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

Date: July 30, 2020

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