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, 2023

or

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

For the transition period from to

Commission File Number 1-13883

CALIFORNIA WATER SERVICE GROUP
(Exact name of registrant as specified in its charter)

Delaware	**77-0448994**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1720 North First Street
San Jose, 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:

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of June 30, 2023 — there were approximately 57,702,000 shares of common stock outstanding.

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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, 2023	December 31, 2022
ASSETS		
Utility plant:		
Utility plant	$ 4,715,310	$ 4,536,272
Less accumulated depreciation and amortization	(1,537,580)	(1,477,402)
Net utility plant	3,177,730	3,058,870
Current assets:		
Cash and cash equivalents	55,595	62,100
Restricted cash	34,069	22,925
Receivables:		
Customers, net	62,978	55,079
Regulatory balancing accounts	61,333	66,826
Other, net	22,664	20,932
Unbilled revenue, net	39,171	33,140
Materials and supplies	13,862	12,564
Taxes, prepaid expenses, and other assets	22,184	21,969
Total current assets	311,856	295,535
Other assets:		
Regulatory assets	276,592	283,620
Goodwill	36,814	36,814
Other assets	187,209	175,913
Total other assets	500,615	496,347
TOTAL ASSETS	$ 3,990,201	$ 3,850,752
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, $0.01 par value; 136,000 shares authorized, 57,702 and 55,598 outstanding in 2023 and 2022, respectively	$ 577	$ 556
Additional paid-in capital	873,923	760,336
Retained earnings	515,016	556,698
Noncontrolling interests	4,451	4,804
Total equity	1,393,967	1,322,394
Long-term debt, net	1,052,070	1,052,487
Total capitalization	2,446,037	2,374,881
Current liabilities:		
Current maturities of long-term debt, net	1,825	3,310
Short-term borrowings	130,000	70,000
Accounts payable	138,272	140,986
Regulatory balancing accounts	29,277	12,240
Accrued interest	7,164	6,490
Accrued expenses and other liabilities	56,119	61,624
Total current liabilities	362,657	294,650
Deferred income taxes	327,856	330,251
Pension	80,008	78,443
Regulatory liabilities and other	283,496	287,294
Advances for construction	200,213	199,832
Contributions in aid of construction	289,934	285,401
Commitments and contingencies (Note 10)		
TOTAL CAPITALIZATION AND LIABILITIES	$ 3,990,201	$ 3,850,752

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Operating revenue	$ 194,044	$ 206,194	$ 325,144	$ 379,187
Operating expenses:				
Operations:				
Water production costs	$ 70,867	70,907	125,875	132,445
Administrative and general	$ 34,975	32,686	70,961	66,097
Other operations	$ 25,823	29,417	42,427	55,269
Maintenance	$ 7,155	7,615	15,133	14,956
Depreciation and amortization	$ 29,824	28,773	59,739	57,543
Income tax expense (benefit)	$ 329	1,454	(5,315)	37
Property and other taxes	$ 9,122	8,053	17,899	16,413
Total operating expenses	178,095	178,905	326,719	342,760
Net operating income (loss)	15,949	27,289	(1,575)	36,427
Other income and expenses:				
Non-regulated revenue	$ 4,485	7,002	9,108	12,199
Non-regulated expenses	$ (2,957)	(8,541)	(5,232)	(15,527)
Other components of net periodic benefit credit	$ 4,756	3,765	9,977	7,779
Allowance for equity funds used during construction	$ 1,355	1,042	2,759	2,017
Income tax expense on other income and expenses	$ (1,445)	(345)	(3,239)	(857)
Net other income	6,194	2,923	13,373	5,611
Interest expense:				
Interest expense	$ 13,491	11,586	26,309	23,081
Allowance for borrowed funds used during construction	$ (795)	(589)	(1,624)	(1,152)
Net interest expense	12,696	10,997	24,685	21,929
Net income (loss)	9,447	19,215	(12,887)	20,109
Net loss attributable to noncontrolling interests	$ (109)	$ (269)	(232)	(461)
Net income (loss) attributable to California Water Service Group	$ 9,556	$ 19,484	$ (12,655)	$ 20,570
Earnings (loss) per share of common stock:				
Basic	$ 0.17	$ 0.36	$ (0.23)	$ 0.38
Diluted	$ 0.17	$ 0.36	$ (0.23)	$ 0.38
Weighted average shares outstanding:				
Basic	56,692	54,007	56,182	53,870
Diluted	56,730	54,042	56,182	53,918

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, 2023	June 30, 2022
Operating activities:		
Net (loss) income	$ (12,887)	$ 20,109
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	60,744	58,932
Change in value of life insurance contracts	(2,620)	7,169
Allowance for equity funds used during construction	(2,759)	(2,017)
Changes in operating assets and liabilities:		
Receivables and unbilled revenue	(2,187)	(31,513)
Water Arrearages Payment Program	—	20,836
Accounts payable	(836)	(11,116)
Other current assets	(1,557)	418
Other current liabilities	(6,828)	316
Other changes in noncurrent assets and liabilities	6,451	26,776
Net cash provided by operating activities	37,521	89,910
Investing activities:		
Utility plant expenditures	(177,189)	(144,588)
Life insurance proceeds	—	6,688
Purchase of life insurance contracts	—	(6,688)
Asset acquisition	(102)	(6,319)
Net cash used in investing activities	(177,291)	(150,907)
Financing activities:		
Short-term borrowings, net of issuance costs of $1,552 for 2023 and $0 for 2022	148,448	55,000
Repayment of short-term borrowings	(90,000)	(20,000)
Repayment of long-term debt	(1,333)	(1,313)
Advances and contributions in aid of construction	9,129	13,142
Refunds of advances for construction	(4,791)	(4,508)
Repurchase of common stock	(1,650)	(1,786)
Issuance of common stock, net	113,921	31,268
Dividends paid	(29,027)	(26,881)
Distribution to noncontrolling interest	(288)	(348)
Net cash provided by financing activities	144,409	44,574
Change in cash, cash equivalents, and restricted cash	4,639	(16,423)
Cash, cash equivalents, and restricted cash at beginning of period	85,025	80,653
Cash, cash equivalents, and restricted cash at end of period	$ 89,664	$ 64,230
Supplemental information:		
Cash paid for interest (net of amounts capitalized)	$ 23,677	$ 18,618
Supplemental disclosure of non-cash activities:		
Accrued payables for investments in utility plant	$ 49,452	$ 56,522
Utility plant contribution by developers	$ 15,312	$ 9,866

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CALIFORNIA WATER SERVICE GROUP
Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2023
Dollar amounts in thousands, unless otherwise stated

Note 1. Organization and Operations and Basis of Presentation

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

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

Basis of Presentation

The unaudited condensed consolidated interim financial statements have 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. Interim financial information includes the Company's accounts and those of its wholly and non-wholly owned subsidiaries. The non-wholly owned subsidiary was consolidated using the voting interest model as the Company owns a majority of the non-wholly owned subsidiary's voting interests. The interim 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, 2022 as filed with the SEC on March 1, 2023.

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 materially 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.

Noncontrolling Interests

Noncontrolling interests in the Company's condensed consolidated financial statements represents a 5.6% interest not owned by Texas Water in a consolidated subsidiary. Since the Company controls this subsidiary, its financial statements are consolidated with those of the Company, and the noncontrolling owner's 5.6% share of the subsidiary's net assets and results of operations is deducted and reported as noncontrolling interests on the condensed consolidated balance sheet and as net loss attributable to noncontrolling interests in the condensed consolidated statement of operations. The Company reports noncontrolling interests in consolidated entities as a component of equity separate from the Company's equity. The Company's net income (loss) attributable to California Water Service Group excludes the net loss attributable to the noncontrolling interests.

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, 2023 and 2022:

	Three Months Ended June 30	
	2023	2022
Revenue from contracts with customers	$ 194,206	$ 198,660
Regulatory balancing account revenue	(162)	7,534
Total operating revenue	$ 194,044	$ 206,194

	Six Months Ended June 30	
	2023	2022
Revenue from contracts with customers	$ 339,431	$ 357,592
Regulatory balancing account revenue	(14,287)	21,595
Total operating revenue	$ 325,144	$ 379,187

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 the 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 unaudited condensed 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, 2023 and 2022:

	Three Months Ended June 30	
	2023	2022
Residential	$ 108,741	$ 116,638
Business	37,846	39,278
Multiple residential	16,504	16,193
Industrial	5,874	6,314
Public authorities	8,991	10,884
Other (a)	16,250	9,353
Total revenue from contracts with customers	$ 194,206	$ 198,660

	Six Months Ended June 30	
	2023	2022
Residential	$ 192,775	$ 208,380
Business	69,820	71,441
Multiple residential	31,501	31,010
Industrial	11,508	12,087
Public authorities	15,416	17,869
Other (a)	18,411	16,805
Total revenue from contracts with customers	$ 339,431	$ 357,592

(a) Other includes accrued unbilled revenue.

Regulatory balancing account revenue

Regulatory balancing account revenue is revenue related to revenue mechanisms authorized in California by the California Public Utilities Commission (CPUC), which allow the Company to recognize revenue when it is objectively determinable, probable of recovery and expected to be collected within 24 months following the end of the accounting period, and are not considered contracts with customers. To the extent that revenue is estimated to be collectible beyond 24 months, recognition is deferred. Due to a delay in resolution of the most recent Cal Water General Rate Case (GRC) filing (2021 GRC Filing), the Company did not benefit from any regulatory revenue mechanisms in the first six months of 2023. For 2022, the Company's authorized regulatory revenue mechanisms included the Water Revenue Adjustment Mechanism (WRAM).

The WRAM decoupled revenue from the volume of the sales and allowed the Company to recognize the adopted level of volumetric revenues. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts was recorded as regulatory balancing account revenue. No WRAM was recorded in 2023 as the revenue mechanism concluded on December 31, 2022.

Regulatory balancing account revenue also includes revenue that is recognized for balancing accounts when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process. These mechanisms, such as the Modified Cost Balancing Account (MCBA), Conservation Expense Balancing Account (CEBA), Pension Cost Balancing Account (PCBA), and Health Cost Balancing Account (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 were recorded as regulatory balancing account revenue in 2022. In 2023, in connection with the CPUC's disallowance of the use of the WRAM, the variances for CEBA, HCBA, and PCBA are recorded against the originating expense. The MCBA was not recorded in 2023 as the mechanism concluded on December 31, 2022.

The CPUC issued a decision effective August 27, 2020 requiring that Class A companies submitting GRC filings after the effective date be (i) precluded from proposing the use of a full decoupling WRAM in their next GRCs and (ii) allowed the use of Monterey-Style Water Revenue Adjustment Mechanisms (MWRAM). In addition, the CPUC's decision allowed for Incremental Cost Balancing Accounts (ICBAs) to replace the MCBA. The MWRAM tracks the difference between the revenue received for actual metered sales through the tiered volumetric rate and the revenue that would have been received with the same actual metered sales if a uniform rate had been in effect. The ICBA tracks differences between the authorized per-unit prices of water production costs and actual per-unit prices of water production costs. Cal Water complied with this decision in its 2021 GRC Filing and expects the MWRAM to be approved and effective retroactive to January 1, 2023. For the first six months of 2023, the Company did not record a regulatory asset or regulatory liability for the MWRAM or ICBAs.

Non-regulated Revenue

The following tables disaggregate the Company's non-regulated revenue by source for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30	
	2023	2022
Operating and maintenance revenue	$ 3,075	$ 3,233
Other non-regulated revenue	800	3,081
Non-regulated revenue from contracts with customers	3,875	6,314
Lease revenue	610	688
Total non-regulated revenue	$ 4,485	$ 7,002

	Six Months Ended June 30	
	2023	2022
Operating and maintenance revenue	$ 6,310	$ 6,638
Other non-regulated revenue	1,582	4,231
Non-regulated revenue from contracts with customers	7,892	10,869
Lease revenue	1,216	1,330
Total non-regulated revenue	$ 9,108	$ 12,199

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 and Unbilled Revenue are inconsequential. Customer receivables include receivables for water and wastewater services provided to residential customers, business, industrial, public authorities, and other customers. The expected credit losses for business, industrial, public authorities, and other customers are inconsequential. The overall risks related to the Company's receivables are low as water and wastewater services are seen as essential services. The estimate for the allowance for credit losses is based on a historical loss ratio, in conjunction with a qualitative assessment of elements that impact the collectability of receivables to determine if the allowance for credit losses should be further adjusted in accordance with the accounting guidance for credit losses. Management contemplates available current information such as changes in economic factors, regulatory matters, industry trends, payment options and programs available to customers, and the methods that the Company is able to utilize to ensure payment.

The Company reviews its allowance for credit losses utilizing a quantitative assessment, which includes a trend analysis of customer billing and collection, aging by customer class, and unemployment rates. The Company also utilizes a qualitative assessment, which considers the future collectability on customer outstanding balances, management's estimate of the cash recovery, and a general assessment of the economic conditions of the locations the Company serves. Based on these assessments, the Company adjusted its allowance for credit losses accordingly.

The following table presents the activity in the allowance for credit losses for the 6-month period ended June 30, 2023 and 12-month period ended December 31, 2022:

Allowance for credit losses	June 30, 2023	December 31, 2022
Beginning balance	$ 5,629	$ 3,743
Provision for credit loss expense	1,640	5,887
Write-offs	(3,073)	(4,380)
Recoveries	302	379
Total ending allowance balance	$ 4,498	$ 5,629

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 (see Note 10 for further details on restricted cash):

	June 30, 2023	December 31, 2022
Cash and cash equivalents	$ 55,595	$ 62,100
Restricted cash	34,069	22,925
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	$ 89,664	$ 85,025

Note 3. Stock-based Compensation

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

During the first six months of 2023, the Company granted Restricted Stock Awards (RSAs) to Officers and members of the Board of Directors. An RSA share represents the right to receive a restricted share of the Company's common stock and is valued based on the fair market value of the Company's common stock at the date of grant. RSAs granted to Officers vest over 36 months with the first year cliff vesting. In general, RSAs granted to Board members vest at the end of12 months. The RSAs are recognized as expense evenly over 36 months for the shares granted to Officers and12 months for the shares granted to Board members. As of June 30, 2023, there was approximately $3.2 million of total unrecognized compensation cost related to RSAs. The cost is expected to be recognized over a weighted average period of1.8 years.

A summary of the status of the outstanding RSAs as of June 30, 2023 is presented below:

	Number of RSA Shares	Weighted-Average Grant-Date Fair Value
RSAs at January 1, 2023	52,066	$ 55.77
Granted	42,767	55.47
Vested	(33,155)	55.82
Forfeited	—	—
RSAs at June 30, 2023	61,678	$ 55.54

During the first six months of 2023, the Company granted performance-based Restricted Stock Units (RSUs) to Officers. An RSU represents the right to receive a share of the Company's common stock. Each award reflects a target number shares of common stock that may be issued to the award recipient. The 2023 awards may be earned upon the completion of a 3-year performance period. Whether RSUs are earned at the end of the performance period will be determined based on the achievement of certain performance objectives set by the Organization and Compensation Committee of the Board of Directors in connection with the issuance of the RSUs. The performance objectives are based on the Company's business plan covering the performance period. The performance objectives include achieving the budgeted return on equity, growth in stockholders' equity, and environmental, social, and governance targets. Depending on the results achieved during the 3-year performance period, the actual number of shares that a grant recipient receives at the end of the performance period may range from 0% to 200% of the target shares granted, provided that the grantee is continuously employed by the Company through the vesting date. If prior to the vesting date employment is terminated by reason of death, disability or normal retirement, then a pro rata portion of this award will vest. The RSUs are recognized as expense ratably over the 3-year performance period using a fair market value of the Company's common share at the date of grant and an estimated number of RSUs that will vest during the performance period. As of June 30, 2023, there was approximately $3.5 million of total unrecognized compensation cost related to RSUs. The cost is expected to be recognized over a weighted average period of 1.8 years.

A summary of the status of the outstanding RSUs as of June 30, 2023 is presented below:

	Number of RSU Shares	Weighted-Average Grant-Date Fair Value
RSUs at January 1, 2023	92,625	$ 54.06
Granted	43,633	55.48
Performance criteria adjustment	14,822	56.84
Vested	(40,589)	56.84
Forfeited	(9,250)	53.66
RSUs at June 30, 2023	101,241	$ 55.38

The Company has recorded compensation costs for the RSAs and RSUs that are included in administrative and general operating expenses in the amount of $.4 million and $1.5 million for the three months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023 and 2022, the Company has recorded compensation costs for the RSAs and RSUs in the amount of $1.5 million and $2.0 million, respectively.

Note 4. Equity

On April 29, 2022, the Company entered into an equity distribution agreement to sell shares of its common stock having an aggregate gross sales price of up to $350.0 million from time to time depending on market conditions through an at-the-market equity program over the nexthree years. The Company intends to use the net proceeds from these sales, after deducting commissions on such sales and offering expenses, for general corporate purposes, which may include working capital, construction and acquisition expenditures, investments and repurchases, and redemptions of securities. The Company sold 1,699,849 shares of common stock through its at-the-market equity program and raised proceeds of $94.5 million, net of $1.0 million in commissions paid under the equity distribution agreement, during the three months ended June 30, 2023. During the three months ended June 30, 2022, the Company sold 574,634 shares of common stock through its at-the-market equity program and raised proceeds of $30.2 million net of $0.3 million in commissions paid under the equity distribution agreement.

The Company sold 2,025,891 shares of common stock through its at-the-market equity program and raised proceeds of $112.7 million net of $1.1 million in commissions paid under the equity distribution agreement during the six months ended June 30, 2023. During the six months ended June 30, 2022, the Company sold 574,634 shares of common stock through its at-the-market equity program and raised proceeds of $30.2 million net of $0.3 million in commissions paid under the equity distribution agreement.

As approved by the Company's stockholders at the 2022 Annual Meeting, effective July 26, 2022, the aggregate number of shares of common stock which the Company shall have authority to issue was increased from 68.0 million shares to 136.0 million shares. All of said 136.0 million shares shall be of one and the same series, namely shares with par value of $0.01 per share.

The Company's changes in total equity for the six months ended June 30, 2023 and 2022 were as follows:

	Six months ended June 30, 2023					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Noncontrolling Interests	Total Equity
	Shares	Amount				
	(In thousands)					
Balance at January 1, 2023	55,598	$ 556	$ 760,336	$ 556,698	$ 4,804	$ 1,322,394
Net loss	—	—	—	(22,211)	(123)	(22,334)
Issuance of common stock	420	4	18,922	—	—	18,926
Repurchase of common stock	(27)	—	(1,542)	—	—	(1,542)
Dividends paid on common stock ($0.2600 per share)	—	—	—	(14,456)	—	(14,456)
Investment in business with noncontrolling interest	—	—	(111)	—	111	—
Balance at March 31, 2023	55,991	560	777,605	520,031	4,792	1,302,988
Net income (loss)	—	—	—	9,556	(109)	9,447
Issuance of common stock	1,713	17	96,482	—	—	96,499
Repurchase of common stock	(2)	—	(108)	—	—	(108)
Dividends paid on common stock ($0.2600 per share)	—	—	—	(14,571)	—	(14,571)
Investment in business with noncontrolling interest	—	—	(56)	—	56	—
Distribution to noncontrolling interest	—	—	—	—	(288)	(288)
Balance at June 30, 2023	57,702	577	873,923	515,016	4,451	1,393,967

	Six months ended June 30, 2022					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Noncontrolling Interests	Total Equity
	Shares	Amount				
	(In thousands)					
Balance at January 1, 2022	53,716	$ 537	$ 651,121	$ 514,873	$ 5,386	$ 1,171,917
Net income (loss)	—	—	—	1,086	(192)	894
Issuance of common stock	85	1	1,106	—	—	1,107
Repurchase of common stock	(28)	—	(1,674)	—	—	(1,674)
Dividends paid on common stock ($0.2500 per share)	—	—	—	(13,429)	—	(13,429)
Investment in business with noncontrolling interest	—	—	(54)	—	54	—
Balance at March 31, 2022	53,773	538	650,499	502,530	5,248	1,158,815
Net income (loss)	—	—	—	19,484	(269)	19,215
Issuance of common stock	585	6	32,118	—	—	32,124
Repurchase of common stock	(2)	—	(111)	—	—	(111)
Dividends paid on common stock ($0.2500 per share)	—	—	—	(13,452)	—	(13,452)
Investment in business with noncontrolling interest	—	—	(153)	—	153	—
Distribution to noncontrolling interest	—	—	—	—	(348)	(348)
Balance at June 30, 2022	54,356	544	682,353	508,562	4,784	1,196,243

Note 5. Earnings (Loss) Per Share of Common Stock

The computations of basic and diluted earnings (loss) per share of common stock are noted in the tables below. Basic earnings (loss) per share of common stock is computed by dividing the net income (loss) attributable to California Water Service Group 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. Certain outstanding equity instruments are not included in the diluted earnings (loss) per share calculation because their inclusion would have been anti-dilutive.

	Three Months Ended June 30	
	2023	2022
	(In thousands, except per share data)	
Net income	$ 9,447	$ 19,215
Net loss attributable to noncontrolling interests	$ (109)	$ (269)
Net income attributable to California Water Service Group	$ 9,556	$ 19,484
Weighted average common shares outstanding, basic	56,692	54,007
Weighted average common shares outstanding, dilutive	56,730	54,042
Earnings per share of common stock - basic	$ 0.17	$ 0.36
Earnings per share of common stock - diluted	$ 0.17	$ 0.36

	Six Months Ended June 30	
	2023	2022
	(In thousands, except per share data)	
Net (loss) income	$ (12,887)	$ 20,109
Net loss attributable to noncontrolling interests	$ (232)	$ (461)
Net (loss) income attributable to California Water Service Group	$ (12,655)	$ 20,570
Weighted average common shares outstanding, basic	56,182	53,870
Weighted average common shares outstanding, dilutive	56,182	53,918
(Loss) earnings per share of common stock - basic	$ (0.23)	$ 0.38
(Loss) earnings per share of common stock - diluted	$ (0.23)	$ 0.38

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 amounts accrued for 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 $2.9 million and $8.8 million for the six months ended June 30, 2023 and 2022, respectively. Cash contributions made by the Company to the other postretirement benefit plans were $0.2 million and $0.3 million for the six months ended June 30, 2023 and 2022, respectively. The total 2023 estimated cash contribution to the pension plans and other postretirement benefits plans are expected to be approximately $2.9 million and $0.2 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	
	2023	2022	2023	2022
Service cost	$ 6,046	$ 9,235	$ 1,126	$ 1,683
Interest cost	8,746	6,329	1,297	1,008
Expected return on plan assets	(13,421)	(11,307)	(2,636)	(2,482)
Amortization of prior service cost	131	242	39	39
Recognized net actuarial (gain) loss	(637)	999	(581)	(228)
Net periodic benefit cost (benefit)	$ 865	$ 5,498	$ (755)	$ 20

	Six Months Ended June 30			
	Pension Plan		Other Benefits	
	2023	2022	2023	2022
Service cost	$ 12,092	$ 18,470	$ 2,252	$ 3,366
Interest cost	17,492	12,658	2,595	2,016
Expected return on plan assets	(26,842)	(22,614)	(5,271)	(4,964)
Amortization of prior service cost	262	484	77	78
Recognized net actuarial loss	(1,274)	1,998	(1,163)	(456)
Net periodic benefit cost	$ 1,730	$ 10,996	$ (1,510)	$ 40

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

Note 7. Short-term and Long-term Borrowings

On March 31, 2023, the Company and Cal Water entered into syndicated credit agreements, which provide for unsecured revolving credit facilities of up to an initial aggregate amount of $600.0 million for a term of five years. The Company and subsidiaries that it designates may borrow up to $200.0 million under the Company's revolving credit facility (the Company facility). Cal Water may borrow up to $400.0 million under its revolving credit facility (the Cal Water 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. At the Company's or Cal Water's option, as applicable, borrowings under the Company and Cal Water facilities, as applicable, will bear interest annually at a rate equal to (i) the base rate, plus an applicable margin of 0.00% to 0.250%, depending on the Company and its subsidiaries' consolidated total capitalization ratio, or (ii) Term SOFR, plus an applicable margin of 0.800% to 1.250%, depending on the Company and its subsidiaries' consolidated total capitalization ratio.

The Company and Cal Water 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, the Company and Cal Water facilities contain financial covenants governing the Company and its subsidiaries' consolidated total capitalization ratio and interest coverage ratio. As of June 30, 2023, the Company and Cal Water are in compliance with all of the covenant requirements and are eligible to use the full amount of the undrawn portion of the Company and Cal Water facilities, as applicable.

The outstanding borrowings on the Company facility as of each of June 30, 2023 and December 31, 2022 were $35.0 million. Outstanding borrowings on the Cal Water facility as of June 30, 2023 and December 31, 2022 were $95.0 million and $35.0 million, respectively. The average borrowing rate for borrowings on the Company and Cal Water facilities during the six months ended June 30, 2023 was 5.78% compared to 1.35% 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	
	2023	2022
Income tax expense	$ 1,774	$ 1,799

	Six Months Ended June 30	
	2023	2022
Income tax (benefit) expense	$ (2,076)	$ 894

Income tax benefit increased $3.0 million to $2.1 million for the first six months of 2023 as compared to $0.9 million income tax expense for the first six months of 2022, primarily due to an increase in the pre-tax loss in the first six months of 2023 as compared to 2022.

The Company's effective tax rate was 14.9% before discrete items as of June 30, 2023 and 11.5% as of June 30, 2022. The increase in the effective tax rate was primarily due to a decrease in the refunds of excess deferred federal income taxes.

The Company had unrecognized tax benefits of approximately $14.4 million and $16.5 million as of June 30, 2023 and 2022, respectively. Included in the balance of unrecognized tax benefits as of June 30, 2023 and 2022, is $4.6 million and $4.2 million, respectively, of tax benefits that, if recognized, would result in an adjustment to the Company's effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly within the next 12 months.

Note 9. Regulatory Assets and Liabilities

Regulatory assets and liabilities were comprised of the following as of June 30, 2023 and December 31, 2022:

	Recovery Period	June 30, 2023	December 31, 2022
Regulatory Assets			
Retiree group health	Indefinite	$ —	$ 171
Property-related temporary differences (tax benefits flowed through to customers)	Indefinite	143,546	143,546
Other accrued benefits	Indefinite	26,085	24,946
Net WRAM and MCBA long-term accounts receivable	Various	45,034	41,558
Asset retirement obligations, net	Indefinite	26,129	24,548
Interim rates memorandum account (IRMA) long-term accounts receivable	1 - 2 years	3,416	3,682
Tank coating	Various	18,920	16,395
Recoverable property losses	Various	2,890	3,144
PCBA	Various	3,933	19,091
General district balancing account receivable	1 year	387	377
Customer assistance program (CAP) and Rate support fund (RSF) accounts receivable	1 year	3,281	2,965
Other regulatory assets	Various	2,971	3,197
Total Regulatory Assets		$ 276,592	$ 283,620
Regulatory Liabilities			
Future tax benefits due to customers		$ 131,218	$ 131,155
Pension and retiree group health		58,678	58,678
HCBA		3,041	14,318
PCBA		3,862	—
CEBA		912	6,036
Net WRAM and MCBA long-term payable		1,826	172
Other components of net periodic benefit cost		6,040	2,475
Other regulatory liabilities		1,394	845
Total Regulatory Liabilities		$ 206,971	$ 213,679

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

The short-term regulatory assets were $61.3 million as of June 30, 2023 and $66.8 million as of December 31, 2022. The short-term regulatory assets as of June 30, 2023 primarily consist of net WRAM and MCBA and PCBA receivables. As of December 31, 2022, the short-term regulatory assets primarily consist of net WRAM and MCBA, IRMA, and PCBA receivables.

The short-term portions of regulatory liabilities were $29.3 million as of June 30, 2023 and $12.2 million as of December 31, 2022. The short-term regulatory liabilities as of June 30, 2023 primarily consist of TCJA, HCBA and CEBA liabilities. As of December 31, 2022, the short-term regulatory liabilities primarily consist of TCJA liabilities.

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, 2022.

On August 16, 2022, BVRT Utility Holding Company (BVRT), a majority owned subsidiary of Texas Water, entered into a long-term water supply agreement with the Guadalupe Blanco River Authority (GBRA) through its wholly owned subsidiary, Camino Real Utility (Camino Real). The Company has provided a limited guarantee to GBRA for the agreed upon obligations. GBRA is a water conservation and reclamation district established by the Texas Legislature that oversees water resources for 10 counties. Under the terms of the agreement with GBRA, Camino Real is contracted to receive up to 2,419 acre-feet of potable water annually. The GBRA agreement involves four off-takers, including Camino Real, and GBRA plans to extend a potable water pipeline from the City of Lockhart to the City of Mustang Ridge and surrounding areas. Camino Real is contracted to be the utility service provider in this area of the Austin metropolitan region and to provide potable water, recycled water, and wastewater services to portions of the City of Mustang Ridge and surrounding areas. In 2022, Camino Real committed $21.5 million for its share of the cost of the pipeline project and committed an additional $11.1 million for its share of the cost of the pipeline project in January of 2023. As of June 30, 2023, this committed cash has not been transferred to GBRA and is classified as part of restricted cash on the Condensed Consolidated Balance Sheets. The Company currently expects this committed cash to be transferred to GBRA in the latter half of 2023.

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 shareholders, 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, 2023 and December 31, 2022, the Company recognized a liability of $5.1 million and $5.3 million, respectively, prior to insurance recoveries, for known legal matters primarily due to potable water leaks and other work-related legal matters. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. Any settlement in excess of the cost to litigate is accounted for on a case by case basis, dependent on the nature of the settlement.

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:

Cash, Accounts receivable, short-term borrowings, 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 of similar securities, 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 0.60%.

	June 30, 2023				
		Fair Value			
	Cost	**Level 1**	**Level 2**	**Level 3**	**Total**
Long-term debt, including current maturities, net	$ 1,053,895	—	$ 981,993	—	$ 981,993

	December 31, 2022				
		Fair Value			
	Cost	**Level 1**	**Level 2**	**Level 3**	**Total**
Long-term debt, including current maturities, net	$ 1,055,797	$ —	$ 977,227	$ —	$ 977,227

Note 12. Immaterial Restatement of Prior Period Financial Statements

Subsequent to the issuance of the Company's Consolidated Financial Statements for the year ended December 31, 2021, during the fourth quarter of 2022, the Company identified an immaterial error for a regulatory liability and corresponding decreases to operating revenue and deferred income taxes that were not recorded in 2019 associated with customer refunds. The error does not impact customer billings or cash refunded to customers.

The Company corrected the error in the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, through a restatement of the opening retained earnings balance for the year ended December 31, 2020. The Company believes the error is immaterial to the previously issued Financial Statements for prior periods.

The corrections to the Company's retained earnings and total equity as of June 30, 2022 and March 31, 2022, reported in note 4, were as follows:

	As of June 30, 2022		
	As Previously Reported	**Corrections**	**As Corrected**
		(In thousands)	
Retained earnings	$ 519,625	$ (11,063)	$ 508,562
Total equity	$ 1,207,306	$ (11,063)	$ 1,196,243

	As of March 31, 2022		
	As Previously Reported	**Corrections**	**As Corrected**
		(In thousands)	
Retained earnings	$ 513,593	$ (11,063)	$ 502,530
Total equity	$ 1,169,878	$ (11,063)	$ 1,158,815

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 (the PSLRA). The forward-looking statements are intended to qualify under provisions of the federal securities laws for "safe harbor" treatment established by the PSLRA. Forward-looking statements in this quarterly report are based on currently available information, expectations, estimates, assumptions and projections, and our management's beliefs, assumptions, judgments and expectations about us, the water utility industry and general economic conditions. These statements are not statements of historical fact. When used in our documents, statements that are not historical in nature, including words like "will," "would," "expects," "intends," "plans," "believes," "may," "could," "estimates," "assumes," "anticipates," "projects," "progress," "predicts," "hopes," "targets," "forecasts," "should," "seeks," "indicates," or variations of these words or similar expressions are intended to identify forward-looking statements. Examples of forward-looking statements in this quarterly report include, but are not be limited to, statements describing our intention, indication or expectation regarding dividends or targeted payout ratio, our expectations, anticipations or beliefs regarding governmental, legislative, judicial, administrative or regulatory timelines, decisions, approvals, authorizations, requirements or other actions, including with respect to the 2021 GRC Filing, our cost of capital application, rate amounts or cost recovery mechanics, certain PFAS regulations, and associated impacts, such as our estimated revenue benefit or capital requirements, our intentions and plans to remediate the material weakness in our internal control over financial reporting, estimates of, or expectations regarding, capital expenditures, funding needs or other capital requirements, obligations, contingencies or commitments, our beliefs regarding adequacy of water supplies, our expectations regarding stock-based compensation and estimated contributions to our pension plans and other postretirement benefit plans, our estimated annual effective tax rate and expectations regarding tax benefits, our intentions regarding use of net proceeds from any future equity or debt issuances or borrowings or our intentions or anticipations regarding our sources of funding, capital structure or capital allocation plans. 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:

- 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, such as the California Public Utilities Commission (CPUC)'s decision in 2020 to preclude companies from proposing fully decoupled WRAMs in their next GRC filing (which impacted our 2021 GRC Filing related to our operations commencing in 2023);
- the outcome and timeliness of regulatory commissions' actions concerning rate relief and other matters, including with respect to our 2021 GRC Filing;
- increased risk of inverse condemnation losses as a result of climate change and drought;
- 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, including as a result of drought conditions;
- our ability to complete, in a timely manner or at all, successfully integrate, and achieve anticipated benefits from announced acquisitions;
- the impact of weather, climate change, 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;
- restrictive covenants in or changes to the credit ratings on our current or future debt that could increase our financing costs or affect our ability to borrow, make payments on debt or pay dividends;
- risks associated with expanding our business and operations geographically;
- the impact of stagnating or worsening business and economic conditions, including inflationary pressures, general economic slowdown or a recession, increasing interest rates, instability of certain financial institutions, and changes in monetary policy, and the prospect of a shutdown of the U.S. federal government;
- the impact of market conditions and volatility on unrealized gains or losses on our non-qualified benefit plan investments and our operating results;
- the impact of weather and timing of meter reads on our accrued unbilled revenue;

- the impact of evolving legal and regulatory requirements, including emerging environmental, social and governance requirements; 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, 2022.

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 quarterly 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 ESTIMATES

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, 2022 (2022 Annual Report on Form 10-K). They include:

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

For the six months ended June 30, 2023, 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.

2021 GRC FILING

On July 2, 2021, Cal Water filed its 2021 GRC requesting water infrastructure improvements of $1.0 billion in accordance with the rate case plan for all of its regulated operating districts (except Grand Oaks) for the years 2022, 2023, and 2024. A partial settlement with the California Public Advocates Office primarily addressing non-revenue matters was submitted on September 2, 2022. The CPUC continues to evaluate the proposal along with proposals of other parties. A final decision on the case was previously expected to be issued in late 2022 in accordance with the CPUC's rate case plan, with new rates going into effect on January 1, 2023; however, due to unspecified delays at the CPUC, the timing of a final decision is uncertain. In June of 2023, the CPUC issued a decision extending its statutory deadline to issue a final decision until December 31, 2023. Normally, the CPUC is subject to a requirement to process applications within 18 months of filing. In our experience, it is the CPUC's practice to extend its statutory deadline, in some cases multiple times, as needed. On July 13, 2023, the CPUC co-assigned a second Administrative Law Judge (ALJ) to the Cal Water GRC to facilitate the process.

As part of the 2021 GRC Filing, Cal Water has proposed the use of a MWRAM and ICBA as the CPUC issued a decision effective August 27, 2020 requiring that Class A companies submitting GRC filings after the effective date be (i) precluded from proposing the use of a full decoupling WRAM in their next GRCs and (ii) allowed the use of MWRAM. In addition, the CPUC's decision allowed ICBAs to replace the MCBA. We expect the MWRAM to be implemented in 2023 and effective retroactive back to January 1, 2023. For the first six months of 2023, we did not record a regulatory asset or regulatory liability for the MWRAM and ICBA mechanisms. In addition, we did not record WRAM or MCBA adjustments in the first six months of 2023, as the mechanisms concluded on December 31, 2022.

INTERIM RATES MEMORANDUM ACCOUNT (IRMA), MWRAM, AND DROUGHT RESPONSE MEMORANDUM ACCOUNT (DREMA)

The IRMA tracks the difference between the current rates that continue to be billed starting January 1, 2023 (considered to be interim rates), and the rates that will eventually be approved pursuant to the CPUC's decision concerning Cal Water's 2021 GRC Filing plus any additional revenue changes approved since July 1, 2021 (final rates).

The MWRAM tracks the difference between the revenue received for actual metered sales through the tiered volumetric rate and the revenue that would have been received with the same actual metered sales if a uniform rate had been in effect. Cal Water expects the MWRAM to be effective retroactive to January 1, 2023.

The DREMA tracks lost revenues associated with reduced sales revenue when customer demand is affected by requests for voluntary and mandatory usage reductions in California and is in effect for us in 2023 when our regulated service territories in California are under voluntary and mandatory usage reductions. The final value of the DREMA will depend on the resolution of the 2021 GRC Filing.

Operating revenue for the first six months of 2023 does not include any benefit of new revenue mechanisms (MWRAM and DREMA) or rate relief (tracked in the IRMA) due to the delay in the approval of our 2021 GRC Filing. We currently estimate the adverse impact of the delayed decision on six months ended June 30, 2023 operating revenue to be between approximately $43.0 million and $63.0 million. For the second quarter of 2023, we estimate the adverse impact of the delayed decision on operating revenue to be between approximately $19.0 million and $29.0 million. These estimates are based on the current positions of the parties to the 2021 GRC Filing and consumption driven regulatory mechanisms.

RESULTS OF SECOND QUARTER 2023 OPERATIONS
COMPARED TO SECOND QUARTER 2022 OPERATIONS
Dollar amounts in thousands, unless otherwise stated

Overview

Net Income Attributable to California Water Service Group

Net income attributable to California Water Service Group for the second quarter of 2023 was $9.6 million or $0.17 earnings per diluted common share, compared to net income of $19.5 million or $0.36 earnings per diluted common share for the second quarter of 2022.

The $9.9 million decrease in net income was primarily due to a decrease in operating revenue of $12.2 million partially offset by a decrease in total operating expenses of $0.8 million. The total operating expense decrease was primarily due to a decrease in other operations expenses of $3.6 million, and a decrease in income tax expense of $1.2 million. These decreases were partially offset by increases in administrative and general expense of $2.3 million, depreciation and amortization expenses of $1.0 million, property and other taxes of $1.0 million, and maintenance expenses of $0.4 million. Additionally, there was an increase of $3.3 million in net other income, primarily due to a $1.0 million unrealized gain on non-qualified benefit plan investments during the second quarter of 2023 compared to a $4.2 million unrealized loss on certain non-qualified benefit plan investments in the second quarter of 2022, which was partially offset by a $2.3 million decrease related to a gain on company owned life insurance recorded in 2022.

The change in unrealized gains on non-qualified benefit plan investments was caused by favorable market conditions, which is a factor outside our immediate control. Our net income and net other income in future periods are expected to continue to be similarly affected, potentially significantly, by increases or decreases in unrealized gains or losses on non-qualified benefit plan investments, particularly during periods of significant market volatility or significantly favorable or unfavorable market conditions.

Operating Revenue

Operating revenue decreased $12.2 million, or 5.9%, to $194.0 million in the second quarter of 2023 as compared to the second quarter of 2022, with such change attributed to the following:

Net change due to rate changes, usage, and other (1)	$	(4,105)
WRAM revenue (2)		(7,464)
MCBA revenue (3)		313
Other balancing account revenue (4)		2,163
Deferral of revenue (5)		(3,057)
Net operating revenue decrease	$	(12,150)

1. The net change due to rate changes, usage, and other in the above table was primarily driven by a 10.4% decrease in customer usage, which we believe is primarily due to water conservation compared to the same period in 2022. The decrease was partially offset by rate increases in California of $3.4 million.
2. WRAM revenue decrease is due to the mechanism concluding as of December 31, 2022; as a result, no WRAM revenue was recorded for the second quarter of 2023. In the second quarter of 2022, we recognized $7.5 million of WRAM revenue as actual billed volumetric revenue was lower than adopted volumetric revenue.
3. MCBA revenue increase is due to the mechanism concluding as of December 31, 2022; as a result, no MCBA revenue was recorded for the second quarter of 2023.
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 2023, the adjustments for these balancing accounts were recorded as an increase to the originating expense accounts of $2.8 million rather than as an operating revenue decrease. In the second quarter of 2022, actual conservation, pension and health care costs were below the adopted costs and a decrease to revenue of $1.8 million was recognized for the difference.
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. The deferral increased in the second quarter of 2023 as compared to the second quarter of 2022 primarily due to an increase in balancing account revenue expected to be collected beyond 24 months following the accounting period end.

Total Operating Expenses

Total operating expenses decreased $0.8 million, or 0.5%, to $178.1 million in the second quarter of 2023, as compared to $178.9 million in the second quarter of 2022.

Water production cost consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 39.8% of total operating expenses for the second quarter of 2023, as compared to 39.6% of total operating expenses for the second quarter of 2022.

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

	Three Months Ended June 30	
	2023	**2022**
Well production	48 %	49 %
Purchased	47 %	48 %
Surface	5 %	3 %
Total	100 %	100 %

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

	Three Months Ended June 30		
	2023	2022	Change
Purchased water	$ 55,930	$ 55,929	$ 1
Purchased power	10,831	11,144	(313)
Pump taxes	4,106	3,834	272
Total	$ 70,867	$ 70,907	$ (40)

Administrative and general expense increased $2.3 million, or 7.0%, to $35.0 million in the second quarter of 2023, as compared to $32.7 million in the second quarter of 2022. The increase was primarily due to $1.9 million in higher employee labor costs primarily driven by annual increases in employee wages.

Other operations expenses decreased $3.6 million, or 12.2%, to $25.8 million in the second quarter of 2023, as compared to $29.4 million in the second quarter of 2022. The decrease was primarily due to an increase in deferred costs associated with deferred revenue of $2.5 million (see deferral of revenue above) and a $1.7 million decrease in bad debt costs.

Maintenance expense decreased $0.4 million, or 5.9%, to $7.2 million in the second quarter of 2023, as compared to $7.6 million in the second quarter of 2022, due to a decline in repairs of mains and services.

Depreciation and amortization expense increased $1.0 million, or 3.6%, to $29.8 million in the second quarter of 2023, as compared to $28.8 million in the second quarter of 2022, mostly due to utility plant placed in service in 2022.

Income tax expense decreased $1.2 million to $0.3 million in the second quarter of 2023, as compared to $1.5 million in the second quarter of 2022. The decrease was primarily due to a decrease in pre-tax net operating income in the second quarter of 2023 as compared to the prior year.

Property and other taxes increased $1.0 million to $9.1 million in the second quarter of 2023, as compared to $8.1 million in the same period of 2022, mostly due to an increase in assessed property values for utility plant in service.

Other Income and Expenses

Net other income increased $3.3 million to $6.2 million in the second quarter of 2023, as compared to a net other income of $2.9 million in the second quarter of 2022, due primarily to a $5.2 million increase in unrealized gains on non-qualified benefit plan investments, which was partially offset by a $2.3 million decrease related to a gain on company owned life insurance recorded in 2022.

Interest Expense

Net interest expense increased $1.7 million, or 15.4%, to $12.7 million in the second quarter of 2023, as compared to $11.0 million in the second quarter of 2022. The increase was primarily due to an increase in short-term borrowing rates and higher outstanding line of credit balances.

RESULTS OF THE SIX MONTHS ENDED JUNE 30, 2023 OPERATIONS
COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2022 OPERATIONS
Dollar amounts in thousands, unless otherwise stated

Overview

Net (Loss) Income Attributable to California Water Service Group

Net loss attributable to California Water Service Group for the first six months of 2023 was $12.7 million or $0.23 loss per diluted common share, compared to net income of $20.6 million or $0.38 earnings per diluted common share for the first six months of 2022.

The $33.3 million decrease in net income was primarily due to a decrease in operating revenue of $54.1 million partially offset by a decrease in total operating expenses of $16.1 million. The total operating expense decrease was primarily due to a decrease in water production costs of $6.6 million, a decrease in other operations expenses of $12.9 million, and an increase in income tax benefit of $5.4 million. These decreases were partially offset by increases in administrative and general expense of $4.9 million, depreciation and amortization expenses of $2.2 million, and property and other taxes of $1.5 million. Additionally, there was an increase of $7.8 million in net other income, primarily due to a $2.6 million unrealized gain on non-qualified benefit plan investments during the first six months 2023 compared to a $7.2 million unrealized loss on certain non-qualified benefit plan investments in the first six months of 2022, which was partially offset by a $2.7 million decrease related to a gain on company owned life insurance recorded in 2022.

The change in unrealized gains on non-qualified benefit plan investments was caused by favorable market conditions, which is a factor outside our immediate control. Our net income and net other income in future periods are expected to continue to be similarly affected, potentially significantly, by increases or decreases in unrealized gains or losses on non-qualified benefit plan investments, particularly during periods of significant market volatility or significantly favorable or unfavorable market conditions.

Operating Revenue

Operating revenue decreased $54.1 million, or 14.3%, to $325.1 million for the first six months of 2023 as compared to the first six months of 2022, with such change attributed to the following:

Net change due to rate changes, usage, and other (1)	$	(17,015)
WRAM revenue (2)		(11,246)
MCBA revenue (3)		(7,977)
Other balancing account revenue (4)		4,010
Deferral of revenue (5)		(21,815)
Net operating revenue decrease	$	(54,043)

1. The net change due to rate changes, usage, and other in the above table was primarily driven by a 9.7% decrease in customer usage, which we believe is primarily due to higher winter precipitation in our California service territories and water conservation compared to the same period in 2022. The decrease was partially offset by rate increases in California of $5.0 million.

2. WRAM revenue decrease is due to the mechanism concluding as of December 31, 2022; as a result, no WRAM revenue was recorded for the first six months of 2023. In the first six months of 2022, we recognized $11.2 million of WRAM revenue as actual billed volumetric revenue was lower than adopted volumetric revenue.

3. MCBA revenue decrease is due to the mechanism concluding as of December 31, 2022; as a result, no MCBA revenue was recorded for the first six months of 2023. In the first six months of 2022, we recognized $8.0 million of MCBA revenue as actual water production costs were higher 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 was 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 2023, the adjustments for these balancing accounts was recorded as an increase to the originating expense accounts by $6.2 million rather than as an operating revenue decrease. In the first six months of 2022, actual conservation, pension and health care costs were below the adopted costs and a decrease to revenue of $3.9 million was recognized for the difference.

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. The deferral increased in the first six months of 2023 as compared to the first six months of 2022 primarily due to an increase in the net WRAM and MCBA balance and the recovery periods for this net balance extending beyond 24 months from the end of the accounting period as requested in the 2023 WRAM/MCBA advice letter filings.

Total Operating Expenses

Total operating expenses decreased $16.1 million, or 4.7%, to $326.7 million for the first six months of 2023, as compared to $342.8 million for the first six months of 2022.

Water production costs consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 38.5% of total operating expenses in the first six months of 2023 as compared to 38.6% of total operating expenses in the first six months of 2022. Water production costs decreased 5.0% in the first six months of 2023 as compared to the same period last year primarily due to a 9.7% decrease in customer usage, which we believe is primarily due to higher winter precipitation in our California service territories and water conservation compared to the same period in 2022.

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

	Six Months Ended June 30	
	2023	2022
Well production	48 %	48 %
Purchased	48 %	48 %
Surface	4 %	4 %
Total	100 %	100 %

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

	Six Months Ended June 30		
	2023	2022	Change
Purchased water	$ 98,668	$ 104,721	$ (6,053)
Purchased power	19,221	19,543	(322)
Pump taxes	7,986	8,181	(195)
Total	$ 125,875	$ 132,445	$ (6,570)

Administrative and general expenses increased $4.9 million, or 7.4%, to $71.0 million in the first six months of 2023, as compared to $66.1 million in the first six months of 2022. The increase was primarily due to higher labor costs of $4.4 million primarily driven by annual increases in employee wages.

Other operations expenses decreased $12.9 million, or 23.2%, to $42.4 million in the first six months of 2023, as compared to $55.3 million in the first six months of 2022. The decrease was primarily due to an increase in deferred costs associated with deferred revenue of $17.8 million (see deferral of revenue above), which was partially offset by an increase in employee labor costs of $1.9 million.

Maintenance expense increased $0.1 million, or 1.0%, to $15.1 million in the first six months of 2023, as compared to $15.0 million in the first six months of 2022, mostly due to an increase in repair costs of reservoirs, tanks, and equipment.

Depreciation and amortization expense increased $2.2 million, or 3.8%, to $59.7 million in the first six months of 2023, as compared to $57.5 million in the first six months of 2022, mostly due to utility plant placed in service in 2022.

Income tax benefit increased $5.4 million to $5.3 million in the first six months of 2023, as compared to income tax expense of $37.0 thousand in the first six months of 2022. The increase in income tax benefit was primarily due to an increase in the pre-tax operating loss in the first six months of 2023 as compared to the same period of 2022.

Property and other taxes increased $1.5 million to $17.9 million in the first six months of 2023, as compared to $16.4 million in the same period of 2022, mostly due to an increase in assessed property values.

Other Income and Expenses

Net other income increased $7.8 million to $13.4 million in the first six months of 2023, as compared to net other income of $5.6 million in the first six months of 2022, due primarily to a $9.8 million increase in unrealized gains on non-qualified benefit plan investments, which was partially offset by a $2.7 million gain on company owned life insurance in the first six months of 2022.

Interest Expense

Net interest expense increased $2.8 million, or 12.6%, to $24.7 million in the first six months of 2023, as compared to $21.9 million in the first six months of 2022. The increase was due primarily to an increase in short-term borrowing rates and higher outstanding line of credit balances.

REGULATORY MATTERS

California Regulatory Activity

2021 GRC Interim Rates

In June of 2022, Cal Water filed a motion requesting authority for the establishment of an IRMA in the event the CPUC did not issue a final decision for the 2021 GRC Filing in time for new rates to be implemented on January 1, 2023. In November of 2022, the ALJ granted Cal Water's request for the IRMA. Accordingly, on December 27, 2022, Cal Water requested that the IRMA, which was approved by the CPUC, track the difference between interim rates and final rates. After the CPUC's decision is issued and final rates are implemented, then Cal Water expects to file for recovery of the IRMA. Once approved, customer bills are expected to be adjusted to account for the difference between interim rates and final rates back to January 1, 2023.

In January of 2023, Cal Water filed a motion requesting a modification to the November 2022 ruling to apply an inflationary rate increase to interim rates. In the motion, Cal Water requested inflationary rate increases of 1.5% in Marysville and 4% for all other ratemaking areas except Selma, Travis Air Force Base, and Visalia for whom a rate increase was not requested. In February of 2023, the ALJ granted Cal Water's request. Cal Water implemented the increased interim inflation rates on May 5, 2023.

2021 Cost of Capital Application

On May 3, 2021, after an approved extension from a 2020 due date, Cal Water filed its required application with the CPUC to review its cost of capital for 2022 through 2024. At the time of filing, Cal Water had an approved return on equity of 9.2%, a cost of debt of 5.51%, and a capital structure of 53.4% equity and 46.6% debt. Cal Water requested a return on equity of 10.35%, a cost of debt of 4.23%, and a capital structure of 53.4% equity and 46.6% debt. The California Public Advocates Office recommended a return on equity of 7.81%, a cost of debt of 4.23%, and a capital structure of 49.4% equity and 50.6% debt. Evidentiary hearings were held in May 2022 and the case was submitted to the CPUC at the end of the second quarter of 2022. In the second quarter of 2023, the CPUC issued and adopted a proposed decision for the 2021 Cost of Capital Application. Cal Water was authorized a return on equity of 9.05%, a cost of debt of 4.23%, a capital structure of 53.4% equity and 46.6% debt, and an authorized rate of return of 6.80% for 2023 and 2024. The CPUC also reauthorized the Water Cost of Capital Mechanism (WCCM) which automatically adjusts the rate of return when the Moody's Utilities Bond Index (Index) fluctuates between cost of capital applications. Because the Index changed in 2022, the WCCM triggered for 2023. Cal Water filed an advice letter to implement new rates based on an authorized 9.57% return on equity, with a 4.23% cost of debt and an authorized rate of return of 7.08% effective July 31, 2023. We currently expect that the 40 basis-point reduction from Cal Water's current rate of return of 7.48% will negatively impact annual operating revenue by approximately $7.0 million. This estimate is subject to change based on finalization of the 2021 GRC Filing. The WCCM for 2024 will be evaluated in the fourth quarter of 2023 and any resulting change to the California ROE would be effective January 1, 2024.

California Drought Memorandum Account (DRMA)

In June 2021, Cal Water submitted advice letters to request a DRMA to track the incremental operational and administrative costs incurred to further implement updated Rule 14.1 for voluntary conservation measures and Schedule 14.1 for implementation of our Water Shortage Contingency Plan, including activities related to enhanced conservation efforts, staffing, and capital expenditures to ensure a safe, reliable supply of water. The DRMA would also track monies paid by customers for fines, penalties, or other compliance measures associated with water use violations; and penalties paid by Cal Water to its water wholesalers. The DRMA was approved by the CPUC with an effective date of June 14, 2021. As of June 30, 2023, Cal Water has incurred $2.0 million of cumulative DRMA related costs, of which $0.6 million was incurred in the first six months of 2023.

California's Governor issued a drought declaration for all California counties through a series of State of Emergency Proclamations. Given these drought proclamations and then-existing water usage levels in all of its service areas, in 2022 Cal Water activated Stage 2 of the "Water Use Restrictions of its Water Shortage Contingency Plan (WSCP)" of Schedule 14.1 in all of its service areas; as a result, Cal Water saw an increase in DRMA related costs in 2022 and the first six months of 2023.

In Stage 1, irrigating ornamental landscape with potable water is prohibited during the hours of 8:00 a.m. and 6:00 p.m. For Stage 2, irrigating ornamental landscapes with potable water is limited to no more than three days per week as well as prohibited during the hours of 8:00 a.m. and 6:00 p.m. In addition, this stage states that new connections may not install single-pass cooling systems for air conditioning or other cooling system applications unless required for health or safety reasons.

On March 24, 2023, the Governor issued an Executive Order (EO) that, among other things, ended the voluntary 15% water conservation target and ended the requirement that local water agencies implement Stage 2 of their drought contingency plans. This EO maintained the ban on wasteful water uses and retained the State of Emergency for all 58 California counties to allow for drought response and recovery efforts to continue.

On May 8, 2023, Cal Water deactivated Stage 2 and moved to Stage 1 of Cal Water's Schedule 14.1 in all regulated service areas.

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 2022, Cal Water submitted an advice letter to request offsets for increases in purchased water costs and pump taxes in five of its regulated districts totaling $5.1 million. The new rates were implemented on January 1, 2023.

In July of 2023, Cal Water submitted an advice letter to request offsets for increases in purchased water costs, pump taxes, and purchased power costs in 11 of its regulated districts totaling $24.6 million. The new rates are expected to be implemented on July 31, 2023.

WRAM/MCBA Filings

In April and July of 2023, Cal Water submitted advice letters to true up the revenue under-collections for the 2022 annual WRAMs/MCBAs of its regulated districts. A net under-collection of $76.6 million is being recovered from customers in the form of 12, 18, and greater-than-18-month surcharges. The new surcharges incorporate net WRAM/MCBA balances that were previously approved for recovery and were implemented on May 5, 2023, except for Kern River Valley's surcharge, which is expected to be implemented on January 15, 2024. The balance also includes $1.5 million of settlement proceeds from a settled lawsuit with the Stockton East Water District related to purchased water in Stockton. Cal Water will pass the benefit to its Stockton customers through a reduction of its net WRAM receivable.

2018 GRC CEBA Filing

In March of 2023, Cal Water submitted an advice letter to amortize the CEBA from the 2018 GRC that tracked the difference between adopted and actual costs for the period of 2020-2022. $6.2 million is being refunded to customers in some districts in the form of one-time or 12-month surcredits as actual conservation program costs during 2020-2022 were lower than the adopted conservation program costs. The new surcredits were implemented on May 5, 2023.

2018 GRC HCBA and PCBA Filing

In June of 2023, Cal Water submitted an advice letter to amortize the HCBA and PCBA from the 2018 GRC that tracked the difference between adopted and actual costs for the period of 2020-2022. For the HCBA, $14.0 million is expected to be refunded to customers in the form of one-time or 12-month surcredits as actual employee and retiree medical costs during 2020-2022 were lower than the adopted employee and retiree medical costs. For the PCBA, $17.4 million is expected to be recovered from customers in the form of one-time or 12-month surcharges as actual costs for employee pension benefits during 2020-2022 were higher than the adopted employee pension benefits. The new rates are expected to be implemented on July 31, 2023.

City of Hawthorne GRC Filing

In June of 2023, the City of Hawthorne approved Cal Water's water rate increase proposal for 2023-2026. Cal Water was approved to increase total revenue by $0.9 million incrementally over 4 years. Revenue will increase by 1.5% in 2023, 1.9% in 2024, 1.6% in 2025 and 2.3% in 2026. The 2023 increase was implemented on July 1, 2023. Cal Water was also approved to establish a Full Cost Balancing Account to track differences between adopted and actual water production costs.

Regulatory Activity - Other States

2023 Washington Water GRC (Washington Water)

On April 10, 2023, Washington Water filed a GRC application with the Washington Utilities and Transportation Commission requesting an annual revenue increase of $3.0 million for its East Pierce Water System phased in over two years and an annual revenue increase of $0.6 million for its legacy Washington Water system. Washington Water has requested an effective date of July 28, 2023 for new rates.

Pukalani GRC (Hawaii Water)

On December 30, 2022, Hawaii Water filed a GRC application with the Hawaii Public Utilities Commission requesting an annual revenue increase of $0.6 million phased in over two years. Hawaii Water is requesting a fourth quarter of 2023 effective date for new rates.

LIQUIDITY

Cash flow from Operations

Cash flow from operations for the first six months of 2023 was $37.5 million compared to $89.9 million for the same period in 2022. The decrease in the first six months of 2023 as compared to 2022 was primarily due to decrease in net income of $33.0 million for the first six months of 2023 as compared to the same period last year and the net receipt of $20.8 million from the Water Arrearages Payment Program in 2022. 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 2023, we made contributions of $2.9 million to our employee pension plan compared to contributions of $8.8 million during the first six months of 2022. During the first six months of 2023, we made contributions of $0.2 million to the other postretirement benefit plans compared to contributions of $0.3 million during the first six months of 2022. The full-year 2023 estimated cash contribution to the pension plans and other postretirement benefits plans are expected to be approximately $2.9 million and $0.2 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 Company and Cal Water facilities in the event cash is not available to cover operating costs during the winter period. The increase in cash flows during the summer allows short-term borrowings to be paid down. Customer water usage can be lower than normal in drought years and when greater-than-normal precipitation falls in our service areas or temperatures are lower than normal, especially in the summer months.

On July 10, 2023, California Governor Gavin Newsom signed Senate Bill 122, which included several revisions to the California Water and Wastewater Arrearages Payment Program (Program). Most notably, Senate Bill 122 extends the time period covered by the Program to December 31, 2022, as opposed to June 15, 2021. As part of the initial program which covered the period from March 4, 2020 through June 15, 2021, the Company secured $17.1 million to assist customers with past-due bills. The Company expects to seek additional relief for its customers with past-due bills when the application period for the revised program opens later this year.

Investing Activities

During the first six months of 2023 and 2022, we used $177.2 million and $144.6 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 2023, the Company's capital program will be dependent in part on the timing and nature of regulatory approvals in connection with Cal Water's 2021 GRC Filing. The Company proposed to the CPUC spending $1.0 billion on water infrastructure investments in 2022-2024. Capital expenditures in California are evaluated in the context of the pending GRC Filing and may change as the case moves forward.

Financing Activities

Net cash provided by financing activities was $144.4 million during the first six months of 2023 compared to $44.6 million of net cash provided by financing activities for the same period in 2022. For 2023, this includes our issuance of $112.7 million of Company common stock through our at-the-market equity program and $1.2 million through our employee stock purchase plan. For 2022, this includes our issuance of $30.2 million of Company common stock through our at-the-market equity program and $1.1 million through our employee stock purchase plan.

During the first six months of 2023 and 2022, we borrowed $150.0 million and $55.0 million, respectively, on our previous unsecured revolving credit facilities. We made a repayment on our previous unsecured revolving credit facilities of $90.0 million and $20.0 million during the first six months of 2023 and 2022, respectively. During the first six months of 2023, we also paid $1.6 million in issuance costs for the Company and Cal Water facilities entered into on March 31, 2023, as described below.

On March 31, 2023, the Company and Cal Water entered into the Company and Cal Water facilities, which provide for unsecured revolving credit facilities of up to an initial aggregate amount of $600.0 million for a term of five years. The Company and subsidiaries that it designates may borrow up to $200.0 million under the Company facility. Cal Water may borrow up to $400.0 million under the Cal Water 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 net WRAM and MCBA receivable balances were $91.6 million and $77.4 million as of June 30, 2023 and 2022, respectively. The receivable balances were primarily financed by Cal Water using short-term and long-term financing arrangements to meet operational cash requirements. Interest on the receivable 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 2023, we utilized cash generated from operations, temporary borrowings on our previous 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.

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

Short-term liquidity is provided by the Company and Cal Water facilities and internally generated funds. Long-term financing is accomplished through the use of both debt and equity. The Company and subsidiaries that it designates may borrow up to $200.0 million under the Company facility. Cal Water may borrow up to $400.0 million under the Cal Water facility; however, all borrowings must be repaid within 12 months unless a different period is required or authorized by the CPUC. The proceeds from the Company and Cal Water facilities may be used for working capital purposes.

As of June 30, 2023 and December 31, 2022, short-term borrowings of $130.0 million and $70.0 million, respectively, were outstanding on the Company and Cal Water 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, Hawaii Water and Texas Water.

The Company and Cal Water 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, the Company and Cal Water facilities 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, 2023, we are in compliance with all of the covenant requirements and are eligible to use the full amount of the undrawn portion of the Company and Cal Water 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.

Summarized Financial Information for Guarantors and the Issuer of Guaranteed Securities.

On April 17, 2009, Cal Water (Issuer) issued $100.0 million aggregate principal amount of 5.500% First Mortgage Bonds due 2040, all of which are fully and unconditionally guaranteed by the Company (Guarantor). Certain subsidiaries of the Company do not guarantee the security and are referred to as Non-guarantors. The Guarantor fully, absolutely, irrevocably and unconditionally guarantees the punctual payment when due, whether at stated maturity, by acceleration, by notice of prepayment or otherwise, of the principal of, premium, if any, and interest on the bonds. The bonds rank equally among Cal Water's other First Mortgage Bonds.

The following tables present summarized financial information of the Issuer subsidiary and the Guarantor. The information presented below excludes eliminations necessary to arrive at the information on a consolidated basis. In presenting the summarized financial statements, the equity method of accounting has been applied to the Guarantor interests in the Issuer. The summarized information excludes financial information of the Non-guarantors, including earnings from and investments in these entities.

Summarized Statement of Operations

(in thousands)	Six Months Ended June 30, 2023		Twelve Months Ended December 31, 2022	
	Issuer	Guarantor	Issuer	Guarantor
Net sales	$ 291,184	$ —	$ 775,382	$ —
Gross profit	$ 173,278	$ —	$ 506,890	$ —
(Loss) income from operations	$ (75)	$ 246	$ 124,464	$ 363
Equity in (loss) earnings of guarantor	$ —	$ (13,572)	$ —	$ 94,339
Net (loss) income	$ (11,175)	$ (12,887)	$ 92,769	$ 95,263

Summarized Balance Sheet Information

(in thousands)	As of June 30, 2023		As of December 31, 2022	
	Issuer	Guarantor	Issuer	Guarantor
Current assets	$ 238,514	$ 10,985	$ 208,962	$ 31,913
Intercompany receivable from Non-guarantors	$ 1,070	$ 42,585	$ 3,339	$ 34,100
Other assets	$ 454,384	$ 1,150,725	$ 450,668	$ 1,080,720
Long-term intercompany receivable from Non-issuers	$ —	$ 36,946	$ —	$ 37,869
Net utility plant	$ 2,909,252	$ 2	$ 2,805,242	$ —
Total assets	$ 3,603,220	$ 1,241,243	$ 3,468,211	$ 1,184,602
Current liabilities	$ 308,706	$ 37,701	$ 242,538	$ 35,260
Intercompany payable to Non-guarantors and Guarantor	$ 1,959	$ —	$ 562	$ —
Long-term debt	$ 1,051,588	$ —	$ 1,051,994	$ —
Other liabilities	$ 1,096,555	$ 2,750	$ 1,098,378	$ 2,485
Total Liabilities	$ 2,458,808	$ 40,451	$ 2,393,472	$ 37,745

Dividends

During the first six months of 2023, our quarterly common stock dividend payments were $0.52 per share compared to $0.50 per share during the first six months of 2022. For the full year 2022, the payout ratio was 56.5% of net income. On a long-term basis, our goal is to achieve a dividend payout ratio of 60% of net income.

At the July 26, 2023 meeting, the Company's Board of Directors declared the third quarter dividend of $0.26 per share payable on August 18, 2023, to stockholders of record on August 7, 2023. This was our 314th consecutive quarterly dividend.

2023 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 $200.0 million and $400.0 million, respectively, for short-term borrowings. As of June 30, 2023, the Company’s and Cal Water’s availability on these unsecured revolving lines of credit was $165.0 million and $305.0 million, respectively.

Book Value and Stockholders of Record

Book value per common share was $24.08 at June 30, 2023 compared to $23.70 at December 31, 2022. There were approximately 1,832 stockholders of record for our common stock as of May 8, 2023.

Utility Plant Expenditures

During the first six months of 2023, utility plant expenditures totaled $177.2 million for Company-funded and developer-funded projects. For 2023, the Company's capital program will be dependent in part on the timing and nature of regulatory approvals in connection with Cal Water's 2021 GRC filing. The Company proposed to the CPUC spending $1.0 billion on water infrastructure investments in 2022-2024. Capital expenditures in California are evaluated in the context of the pending GRC and may change as the case moves forward.

As of June 30, 2023, construction work in progress was $311.7 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 5.7 billion gallons or 10.8% 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 31.5 billion gallons or 59.9% of our total annual water supply pumped from wells. Our annual groundwater extraction from unmanaged groundwater basins approximates 15.4 billion gallons or 29.3% 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 financially support these groundwater recharge facilities by paying well pump taxes. Our well pump taxes were $4.1 million and $3.8 million for the three months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023 and 2022, our well pump taxes were $8.0 million and $8.2 million, respectively. In 2014, the State of California enacted the Sustainable Groundwater Management Act of 2014 (SGM Act). The law and its implementing regulations required most basins to select a sustainability agency by 2017, develop a sustainability plan by the end of 2022, and show progress toward sustainability by 2027. We expect that after the SGM 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. Typically, 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 30, 2023, the State of California snowpack water content during the 2023-2024 water year was 500% of long-term averages (per the California Department of Water Resources, Northern Sierra Precipitation Accumulation report). The northern Sierra region is the most important for the state's urban water supplies. The central and southern portions of the Sierras have recorded 378% and 378%, 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 2023 and thereafter. 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 currently available treatment processes.

On May 31, 2018, California's Governor signed two bills (Assembly Bill 1668 and Senate Bill 606) into law that were intended to 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. The California State Water Resources Control Board, in conjunction with the California Department of Water Resources, is expected to 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 targets by November 1, 2023, and each November 1 thereafter, that compare actual urban water use to the targets. Management believes that Cal Water is well positioned to comply with all such regulations.

In March of 2023, the United States Environmental Protection Agency issued proposed maximum contaminant levels for six per- and polyfluoroalkyl substances (PFAS). Based on current information, if the regulation is adopted in its current form, we expect that we would have three years to comply with the final PFAS regulations and we estimate that capital investments of approximately $200.0 million would be required to comply.

CONTRACTUAL OBLIGATIONS

During the six months ended June 30, 2023, 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, 2023. Based on this evaluation of our disclosure controls and procedures, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures were not effective as of June 30, 2023, because of the material weakness in our internal control over financial reporting that was disclosed in our 2022 Annual Report on Form 10-K.

(b) Changes to Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the second quarter of 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except that to remediate the material weakness in our internal control over financial reporting as of December 31, 2022 disclosed in Item 9A of our 2022 Annual Report on Form 10-K, management implemented the following controls during the second quarter of 2023:

- Monthly, management of the rates and accounting departments will meet to evaluate the nature of all regulatory activity (examples include advice letter filings, GRC applications, testimony, and settlements) that has occurred during the month and is expected to occur in subsequent months, and identify the regulatory activity which will have an accounting and financial reporting impact. After the monthly meeting, accounting management will determine the required accounting for the regulatory activity having an accounting and financial reporting impact, and a memo will be written and reviewed by rates management and accounting management to conclude on the accounting and financial reporting for such activity.
- At the end of each quarter, rates management will confirm to accounting management that all regulatory activity filed or soon to be filed and which may have an accounting and financial reporting impact have been evaluated and reflected in the financial statements, before finalizing the Company's financial statements.

The material weakness cannot be considered remediated until the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are designed and operating effectively. The Company will monitor the effectiveness of its remediation plan and will make changes management determines to be appropriate.

Management is committed to continuous improvement of the Company’s financial reporting controls and will continue to diligently review the Company’s internal controls over financial reporting. As management continues to evaluate and work to improve internal controls over financial reporting, the Company may determine to take additional measures to address the material weakness or determine to modify certain of the remediation measures described above.

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, 2022 filed with the SEC on March 1, 2023.

Item 5.

OTHER INFORMATION

(c) Trading Plans

During the last fiscal quarter, our directors and officers entered into or terminated the followingtrading arrangement:

- O n June 21, 2023, Thomas M, Krummel, M.D., Director of the Company, adopted a trading plan intended to satisfy Rule 10b5-1(c) to sell up to 18,120 shares of Company common stock between September 27, 2023 and September 5, 2024.

Item 6.

EXHIBITS

Exhibit	Description
3.1	Certificate of Incorporation of California Water Service Group (Exhibit 3.1 to the Quarterly Report on Form 10-Q filed August 9, 2006)
3.2	Certificate of Amendment to Certificate of Incorporation of California Water Service Group (Exhibit 3.1 to the Current Report on Form 8-K filed June 10, 2011)
3.3	Certificate of Amendment to Amended Certificate of Incorporation of California Water Service Group (Exhibit 3.3 to the Quarterly Report on Form 10-Q filed July 28, 2022)
3.4	Certificate of Amendment to Amended Certificate of Incorporation of California Water Service Group
3.5	Amended and Restated Bylaws of California Water Service Group (Exhibit 3.1 to the Current Report on Form 8-K filed February 24, 2023)
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.
10.1	Transition Agreement by and between Thomas Smegal III and California Water Service Company dated May 30, 2023
10.2	Separation Agreement by and between Robert J. Kuta and California Water Service Company dated June 2, 2023
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 this Quarterly Report on Form 10-Q formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Cash Flows, (iv) the Notes to the Condensed Consolidated Financial Statements, and (v) Part II, Item 5(c).
104	The cover page from this Quarterly Report on Form 10-Q 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 27, 2023

By: /s/ David B. Healey
David B. Healey
Vice President,
Chief Financial Officer and Treasurer
(Principal Financial Officer)

Exhibit 3.4

CERTIFICATE OF AMENDMENT
TO
AMENDED CERTIFICATE OF INCORPORATION
OF CALIFORNIA WATER SERVICE GROUP

California Water Service Group, a corporation organized and existing under the General Corporation Law of the State of Delaware, does hereby certify:

1. The name of the Corporation is: "California Water Service Group"

2. The Certificate of Incorporation, as amended June 8, 2011 and as further amended July 25, 2022 (the "Amended Certificate"), is hereby amended as follows:

3. Article SEVENTH of the Amended Certificate is hereby amended in its entirety to read as follows:

"SEVENTH: The liability of the directors and officers of the corporation, both to the corporation and to its stockholders, for monetary damages, including liability for breach of fiduciary duty, shall be eliminated to the fullest extent permissible under Delaware law, as such law currently exists and as it may be amended in the future.

The corporation shall indemnify any person who is or was a party or is threatened to be made a party to any proceeding by reason of the fact that such person is or was an agent of the corporation, to the fullest extent permitted by Section 145 of the Delaware General Corporation Law. The corporation is authorized to provide indemnification of agents for breach of duty to the corporation and its stockholders through bylaw provisions or through agreements with the agents, or both, in excess of the indemnification otherwise permitted by Delaware law."

4. All other provisions of the Amended Certificate shall remain in full force and effect.

5. The amendment of the Amended Certificate herein certified has been duly adopted in accordance with the provisions of Sections 228 and 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be executed by the undersigned authorized officer, as of this 15th day of June, 2023.

CALIFORNIA WATER SERVICE GROUP

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

Exhibit 10.1

TRANSITION AGREEMENT

This Transition Agreement ("*Agreement*") is made and entered into by and between Thomas Smegal III ("*Employee")* and California Water Service Company (the "*Company*" or "*Cal Water"*) (sometimes referred to herein collectively as the "Parties" and individually as a "*Party*"). In consideration of the mutual promises and covenants set forth below, the Parties agree as follows:

1. **Continued Employment; Change in Position.** Employee's employment with the Company will continue for two (2) additional years, from June 1, 2023, through June 30, 2025, unless earlier terminated in accordance with the terms of this Agreement ("*Termination Date*"). Effective June 1, 2023, Employee will cease serving as the Company's Chief Financial Officer and Treasurer and will assume different job responsibilities in the role of Manager, Special Projects, reporting to the Vice President of Rates and Regulatory Affairs. The time period from June 1, 2023, through the Termination Date shall be referred to herein as the ("*Transition Period*"). For the first year of the transition period, the Employee's base salary will be $351,482. For the second year of the Transition Period, the Employee's base salary will be $173,118. During the Transition Period, the Employee will be available for project work, assist with Company initiatives, advice, consultation, etc. up to twenty (20) hours per week. The employee will not be required to report to the Company's offices to perform these duties, unless specifically instructed to do so. During the Transition Period Employee will diligently perform his assigned duties to the reasonable satisfaction of the Company, and any substantiated performance issues may result in discipline up to and including termination. The Company shall provide Employee reasonable notice of any deficient performance and an opportunity to cure such performance prior to terminating the Employee for cause. Should the Employee be terminated for cause prior to the end of the Transition Period, all pay and benefits provided for in this Agreement will cease as of the Revised Termination Date. Should the Employee be terminated without cause prior to the end of the Transition Period, Employee will continue to receive his base salary through the end of the Transition Period. Employee will advise the Company before accepting any full or part-time work whether as an employee or contractor during the Transition Period. The Company must review and approve in advance any such work, and such approval will not be unreasonably withheld. Should the Employee be unable to fulfill his obligations under this Agreement as a result of other employment, the Transition Period with the Company will be terminated, and all pay and benefits provided for under this Agreement will cease as of the date of the Employee's termination or resignation.

2. **Company-Provided Benefits.** During the Transition Period, Employee will continue to receive Company-provided employee benefits, including medical, dental and vision insurance coverage, and he will continue to participate in the Company's 401k plan. However, he will no longer be covered under the Executive Health Plan available through Armada Care. Employee will remain part of the group of Cal Water employees who do not accrue vacation, and Employee understands and agrees that on the Termination Date, Employee will not be entitled to receive any vacation payout, beyond the 96 hours he previously accrued before becoming part of the no vacation accrual group. Likewise, the Employee upon understands that he will not be paid "CWS termination pay Upon Termination". Employee will not have access to a Company-provided vehicle.

3. **Company Provide Incentive Compensation:** During the Transition Period, Employee understands that he will not participate in either the Company At Risk Pay Plan, At Risk Pay/Short Term Incentive Plan for Officers, or the Long Term Incentive Plan for Officers. However, any RSAs or RSUs previously awarded to the Employee will continue to vest during the Transition Period, as provided for in the applicable plan.

4. **Release of Claims.** In exchange for the consideration outlined in this Agreement, including as described in paragraphs 1 and 2 above, to which Employee would not otherwise be entitled, Employee agrees to release the Company, its affiliated, related, parent, or subsidiary entities, and the Company's present and former directors, officers, partners, employees, investors, insurers, representatives, agents, and attorneys (the "*Released Parties*") from any and all claims Employee may now have or have ever had against any of them, including, but not limited to, any claims for discrimination, harassment, or retaliation under Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the California Fair Employment and Housing Act, the Age Discrimination in Employment Act of 1967 ("*ADEA*"), the Americans with Disabilities Act, the Equal Pay Act, the California Equal Pay Act, as amended, the Family Medical Leave Act, the California Family Rights Act, or any other federal, state, or local anti-discrimination statute or ordinance; wage/hour claims, including claims for wages, overtime pay, bonuses, penalties, interest, or attorneys' fees under the Fair Labor Standards Act, the California Labor Code, the IWC Wage Orders, or any other federal, state, or local wage/hour statute or ordinance; claims for violation of federal and state constitutions; claims for attorneys' fees and costs; and claims for wrongful termination, breach of express or implied contract, claims sounding in tort, or any other claims relating to Employee's employment with the Company, his departure therefrom, and any other matter or event occurring up to the Effective Date ("*Released Claims*"). Employee understands that he is not waiving or releasing (i) his right to enforce the terms of this Agreement, (ii) any right to indemnification Employee may have under Company agreements, articles of incorporation, bylaws or statutes, (iii) protection under the Company's directors and officers, general liability and other insurance plans with respect to services performed prior the Termination Date, (iv) vested rights Employee may have under ERISA-covered employee benefit plans, as applicable, or (v) any rights or claims that cannot be waived or released as a matter of law, such as claims for workers' compensation or unemployment insurance benefits. Employee agrees not to file or initiate any claim or lawsuit concerning the Released Claims. However, this release does not prevent Employee from filing a charge with or participating in an investigation by a governmental administrative agency authorized to enforce or administer laws relating to employment, with the understanding that such filing or participation does not entitle Employee to recover monetary relief from the Company resulting from such a charge or investigation. Employee further understands that this Agreement does not limit his ability to communicate with, or otherwise participate in any investigation or proceeding with any federal, state, or local government regulator, including but not limited to the Securities and Exchange Commission (the "*SEC*") or California Public Utilities Commission ("*PUC*"), including providing documents or other information, without notice to the Company, and this Agreement does not limit Employee's right to receive an award or benefit pursuant to Section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

5. **Confidentiality.** It is understood and agreed that except as otherwise expressly provided herein, the terms of this Agreement shall be maintained in strict confidence. Employee agrees that he shall not disclose any of the terms of this Agreement to another person, except to his legal counsel, tax or financial advisors, or immediate family, or unless required by law. The Company agrees that it shall disclose the terms of this Agreement to only those persons with a need to know, or as may be required by law. Nothing in this Agreement prevents Employee from discussing or disclosing information about unlawful acts in the workplace, such as harassment or discrimination or any other conduct that Employee has reason to believe are unlawful, nor is Employee precluded from disclosing factual information relating to claims of harassment, discrimination or retaliation under the Fair Employment and Housing Act.

6. **Non-Disparagement.** Except as expressly provided herein, following the Termination Date, Employee agrees that he shall refrain from making or publishing disparaging or derogatory statements about the Company or any of the other Released Parties, including without limitation statements about the Company's business, services, partners, customers, contractors, directors and employees. Nothing in this Agreement prevents Employee from providing truthful testimony or disclosing factual information in an administrative, legislative, or judicial proceeding in accordance with state and federal law, or communicating directly with, cooperating with, or providing information to, any federal, state, or local government regulator, including, but not limited to, the SEC, the PUC, or the U.S. Department of Justice. The Company agrees that members of its executive team will refrain from making or publishing disparaging or derogatory statements about Employee, except as may be required by law.

7. **Supplemental General Release of Claims.** Employee and the Company each agree to sign and submit to the other on the Termination Date a supplemental release of claims that covers the Transition Period.

8. **California Civil Code Section 1542.** Employee expressly waives any and all rights he may have under California Civil Code Section 1542, a statute that otherwise prohibits the release of unknown claims, which provides as follows:

   A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

9. **No Wrongful Conduct; No Pending or Future Lawsuits.** Employee represents that at no time prior to his execution of this Agreement has he knowingly engaged in any wrongful conduct against any of the Released Parties. Employee further represents that he has not filed, and will not file in the future, any lawsuits, claims, or actions, on his behalf or behalf of any other person or entity, against the Company or any of the other Released Parties relating to any Released Claims. Employee represents and agrees that he has not filed a workers' compensation claim, and that he has not sustained any work-related injuries or illnesses that would give rise to a workers' compensation claim.

10. **Future Cooperation.** Employee agrees that he will make himself reasonably available, upon reasonable notice, to assist and cooperate in connection with any litigation, arbitrations, investigations, or other administrative or legal proceedings that concern or relate to matters with which he is familiar in connection with services he provided to the Company. The Company shall pay reasonable out-of-pocket expenses, as mutually agreed upon by the Parties, which are incurred by Employee in connection with his participation in such activities.

11. **Breach.** Employee understands and agrees that any material breach of this Agreement on his part shall entitle the Company immediately to recover and/or cease providing the consideration under this Agreement and to obtain damages and other remedial relief as permitted by law.

12. **Revocation Right.** Employee acknowledges and affirms that he is entering into this Agreement knowingly and voluntarily, without coercion or duress of any sort, in order to receive the payment and other consideration as set forth herein. Employee acknowledges and affirms that he has (i) been advised to consult with an attorney before signing this Agreement, (ii) carefully read and fully understands the provisions of this Agreement, and (iii) been given adequate opportunity, including the opportunity to spend twenty-one (21) days from the initial receipt of this Agreement (the "*Consideration Period*"), to review and consider this Agreement before signing it. Nothing in this Agreement prevents Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties, or costs for doing so, unless specifically authorized by law. Employee understands that he may execute this Agreement less than twenty-one (21) days from its receipt from the Company, but he agrees that such execution will represent a knowing waiver of such Consideration Period. Employee acknowledges and understands that he shall have seven (7) days to revoke this Agreement solely with respect to any claims under the ADEA; provided, however, that in the event that he revokes his waiver of claims under the ADEA, he will not be entitled to receive any of the consideration described in this Agreement. Employee further agrees that changes to this Agreement, whether material or immaterial, do not restart the running of the twenty-one (21)-day period. This Agreement shall become effective on the eighth day following Employee's signature on, and non-revocation of the Agreement ("*Effective Date*"). Should Employee elect to revoke this Agreement, he must do so by sending a written notice of revocation to Ron Webb, Vice President, Chief Human Resource Officer at rwebb@calwater.com

13. **Arbitration.** The Parties agree to attempt to resolve any dispute or claim arising out of or relating to interpretation or enforcement of this Agreement through discussing the matter, respectfully listening to the other side's concerns, and working together to find a solution to the problem. Because litigation is a costly and time-consuming process, Employee and the Company agree that should such discussions prove unsuccessful, they will submit any legally actionable dispute or claim arising out of or relating to interpretation or enforcement of this Agreement to binding arbitration. The arbitration will be conducted by an impartial arbitrator selected from the Judicial Arbitration & Mediation Services ("*JAMS*") panel of arbitrators in accordance with the then-current JAMS Employment Arbitration Rules and Procedures. The costs of such arbitration shall be borne by the Company, including the fees of the arbitrator; however, each Party shall be responsible for paying its own attorneys' fees and costs. By agreeing to submit disputes to arbitration, the Employee and Company expressly waive the right to institute a court action, except for requests for injunctive relief pending arbitration, and the Parties understand that each Party is giving up the right to pursue a court action before a judge or jury. The arbitrator's award and opinion shall be in writing and shall be final and binding on the Parties. The arbitration shall take place in Santa Clara County, California, unless otherwise agreed to by the Parties in writing. The

arbitrator may award attorneys' fees to the prevailing party, if permitted by applicable law. This agreement to arbitrate disputes does not prohibit either party from pursuing a claim for injunctive relief in a court of law pending the arbitration.

14. **Miscellaneous.**

a. **Entire Agreement**. This Agreement constitutes the complete, final, and exclusive embodiment of the entire agreement between the Employee and Company with regard to the subject matter described herein. This Agreement is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties, or representations. Any changes or modifications must be made in writing and signed by both Employee and an authorized representative of the Company.

b. **Binding Effect**. This Agreement shall be binding upon the Employee, his spouse, heirs, administrators, successors, and assigns, and shall inure to the benefit of the Company, and its successors and assigns.

c. **No Admission of Liability**. The Company enters into this Agreement for the sole purpose of avoiding any potential disputes or misunderstandings. This Agreement shall in no way be construed as an admission by the Company, or any of the Released Parties, of any wrongful conduct, or that Employee has any rights or claims against the Company or the other Released Parties. Similarly, this Agreement shall in no way be construed as an admission by Employee of any wrongful conduct, or that the Company has any rights or claims against the Employee.

d. **Construction and Invalidity**. In the event that any provision of this Agreement is determined to be legally invalid or unenforceable by any court of competent jurisdiction, the affected provision shall be stricken from the Agreement, and the remaining terms of the Agreement and its enforceability shall remain unaffected.

e. **Governing Law**. This Agreement shall be interpreted and construed in accordance with the laws of the State of California. Any and all claims, controversies, and causes of action arising out of or relating to this Agreement, whether sounding in contract, tort, or statute, shall be governed by the laws of the State of California, including its statutes of limitations, without giving effect to any conflict-of-laws or other rule that would result in the application of the laws of a different jurisdiction

f. **Release Voluntary; Joint Effort.** The Parties each acknowledge that they understand the words, terms, and effects of this Agreement and that the Employee and Company have entered into this Agreement voluntarily. The Parties further acknowledge and agree that this Agreement was prepared by, and is the joint effort of, the Parties through negotiation. Accordingly, any ambiguity, uncertainty or vagueness in the construction or interpretation of this Agreement shall not be attributed to either Party, and the Parties agree the theory of construction that a document should be construed against the draft party is inapplicable.

g. **Counterparts.** This Agreement may be signed in counterparts and by facsimile or in pdf format, and each counterpart and facsimile/pdf shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each party.

CALIFORNIA WATER SERVICE COMPANY

Dated: May 30, 2023 By: /s/ Ron Webb

RON WEBB
Vice President, Chief Human Resource Officer

Dated: May 26, 2023 By: /s/ Thomas Smegal III

THOMAS SMEGAL III

Exhibit 10.2

SEPARATION AGREEMENT

This Separation Agreement ("*Agreement*") is made and entered into by and between Robert J. Kuta ("*Employee")* and California Water Service Company (the "*Company*" or "*Cal Water"*) (sometimes referred to herein collectively as the "Parties" and individually as a "*Party*"). In consideration of the mutual promises and covenants set forth below, the Parties agree as follows:

1. **Termination Date.** Employee's employment with the Company will terminate effective May 31, 2023 ("*Termination Date*"), although his last day of work will be May 22, 2023. On the Termination Date, Employee will receive all outstanding wages and benefits. In order to ensure timely expense reimbursement, Employee agrees to submit all requests for expense reimbursement as soon as possible, but by no later than June 15, 2023. Employee desires, and the Company agrees, that the stated reason for his leaving the Company will be for him to pursue other opportunities that better suit the needs of his family.

2. **Severance Payment.** In consideration for Employee signing this Agreement, within thirty (30) days of the Effective Date of this Agreement (as described in paragraph 15 below), the Company shall provide Employee with a check in the gross amount of $337,166.67, less applicable taxes and required withholdings and deductions ("Severance Payment"), representing ten (10) months of Employee's base salary. From June 1, 2023, through July 31, 2023, the Employee will be available to answer questions, offer advice/consultation, etc. for up to twenty (20) hours per week. The Employee will not be required to report to the Company's offices to perform these duties.

3. **Health Coverage.** Provided that the Employee timely elects to receive his pension and retiree medical coverage, as provided for in the applicable plans, as additional consideration for Employee signing this Agreement, the Company agrees that for a period of ten (10) months commencing June 1, 2023 and ending March 31, 2024, it will allow Employee to pay the monthly contribution rate applicable to active employees, details of which are set forth on Attachment A to this Agreement. Employee understands that if he wishes to continue receiving retiree healthcare coverage after April 1, 2024, he will be obligated to make the monthly healthcare contribution then in effect which is applicable to retired Company employees. If Employee does not elect the Company's retiree medical coverage, Employee understands that the healthcare benefits for he and his eligible dependents will end as of May 31, 2023. However, he and his dependents will be eligible to receive health benefit continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("*COBRA*"), should he so elect, beginning June 1, 2023, and at his own expense. Employee understands that in the event he fails to elect retiree medical coverage as provided for above, he will forever forfeit his eligibility for retiree medical in the future.

4. **Pension and Supplemental Executive Retirement Plan (SERP) Benefits** Employee understands that while he is able to defer the commencement of his pension payments under the California Water Service Company Pension Plan to a later date, that is not the case with his SERP payment. Whether or not the Employee signs this Agreement and/or elects to retire and enroll in retiree medical coverage as outlined above, pursuant to the SERP Plan, his first payment will be paid on December 1, 2023 (six months after termination of employment) and will be retroactive to June 1, 2023. Thereafter he will receive monthly SERP payments as provided for in the Plan. However, in order to be eligible for retiree medical, the Employee understands he must commence both his regular pension and SERP benefits upon termination (i.e., effective June 1, 2023).

5. **Inquiries from Prospective Employers.** Should the Company receive reference inquiries from prospective employers following the Termination Date, the Company will follow its customary practice and furnish dates of employment and last position held, and nothing further.

6. **Release of Claims.** In exchange for the consideration outlined in this Agreement, including paragraphs 2 through 4, to which Employee would not otherwise be entitled, Employee agrees to release the Company, its affiliated, related, parent, or subsidiary entities, and the Company's present and former directors, officers, partners, employees, investors, insurers, representatives, agents, and attorneys (the "*Released Parties*") from any and all claims Employee may now have or have ever had against any of them, including, but not limited to, any claims for discrimination, harassment, or retaliation under Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the California Fair Employment and Housing Act, the Age Discrimination in Employment Act of 1967 ("*ADEA*"), the Americans with Disabilities Act, the Equal Pay Act, the California Equal Pay Act, as amended, the Family Medical Leave Act, the California Family Rights Act, or any other federal, state, or local anti-discrimination statute or ordinance; wage/hour claims, including claims for wages, overtime pay, bonuses, penalties, interest, or attorneys' fees under the Fair Labor Standards Act, the California Labor Code, the IWC Wage Orders, or any other federal, state, or local wage/hour statute or ordinance; claims for violation of federal and state constitutions; claims for attorneys' fees and costs; and claims for wrongful termination, breach of express or implied contract, claims sounding in tort, or any other claims relating to Employee's employment with the Company, his departure therefrom, and any other matter or event occurring up to the Effective Date ("*Released Claims*"). Employee understands that he is not waiving or releasing (i) his right to enforce the terms of this Agreement, (ii) any right to indemnification Employee may have under Company agreements, articles of incorporation, bylaws or statutes, (iii) protection under the Company's directors and officers, general liability and other insurance plans with respect to services performed prior the Termination Date, (iv) vested rights Employee may have under ERISA-covered employee benefit plans, as applicable, or (v) any rights or claims that cannot be waived or released as a matter of law, such as claims for workers' compensation or unemployment insurance benefits. Employee agrees not to file or initiate any claim or lawsuit concerning the Released Claims. However, this release does not prevent Employee from filing a charge with or participating in an investigation by a governmental administrative agency authorized to enforce or administer laws relating to employment, with the understanding that such filing or participation does not entitle Employee to recover monetary relief from the Company resulting from such a charge or investigation. Employee further understands that this Agreement does not limit his ability to communicate with, or otherwise participate in any investigation or proceeding with any federal, state, or local government regulator, including but not limited to the Securities and Exchange Commission (the "*SEC*") or California Public Utilities Commission ("*PUC*"), including providing documents or other information, without notice to the

Company, and this Agreement does not limit Employee's right to receive an award or benefit pursuant to Section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

7. **Confidentiality.** It is understood and agreed that except as otherwise expressly provided herein, the terms of this Agreement shall be maintained in strict confidence. Employee agrees that he shall not disclose any of the terms of this Agreement to another person, except to his legal counsel, tax or financial advisors, or immediate family, or unless required by law. The Company agrees that it shall disclose the terms of this Agreement to only those persons with a need to know, or as may be required by law. Nothing in this Agreement prevents Employee from discussing or disclosing information about unlawful acts in the workplace, such as harassment or discrimination or any other conduct that Employee has reason to believe are unlawful, nor is Employee precluded from disclosing factual information relating to claims of harassment, discrimination or retaliation under the Fair Employment and Housing Act.

8. **Non-Disparagement.** Except as expressly provided herein, Employee agrees that he shall refrain from making or publishing disparaging or derogatory statements about the Company or any of the other Released Parties, including without limitation statements about the Company's business, services, partners, customers, contractors, directors and employees. The Company's current officers will not orally or in writing, publicly or privately, express any comment, view or opinion that would disparage the Employee. Nothing in this Agreement prevents Employee from providing truthful testimony or disclosing factual information in an administrative, legislative, or judicial proceeding in accordance with state and federal law, or communicating directly with, cooperating with, or providing information to, any federal, state, or local government regulator, including, but not limited to, the SEC, the PUC, or the U.S. Department of Justice. The Company agrees that members of its executive team will refrain from making or publishing disparaging or derogatory statements about Employee, except as may be required by law.

9. **Return of Company Property.** Employee agrees to return (and not keep copies of, in either paper or electronic form) all Company materials and documents to which Employee had access during his employment, as well as all tangible Company property in his possession, including, without limitation, keys, access cards, laptop computer, and mobile phone.

10. **Company Proprietary Information.** Employee acknowledges that during his employment with Cal Water, he was provided access to confidential, sensitive, non-public information that is proprietary to Cal Water, including Cal Water's trade secrets *('Compa*ny *Confidential Information)."* Employee agrees that all times following the Termination Date, he will preserve and protect, and refrain from using or disclosing to third parties, the Company Confidential Information.

11. **California Civil Code Section 1542.** Employee expressly waives any and all rights he may have under California Civil Code Section 1542, a statute that otherwise prohibits the release of unknown claims, which provides as follows:

    A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

12. **No Wrongful Conduct; No Pending or Future Lawsuits.** Employee represents that at no time prior to his execution of this Agreement has he knowingly engaged in any wrongful conduct against any of the Released Parties. Employee further represents that he has not filed, and will not file in the future, any lawsuits, claims, or actions, on his behalf or behalf of any other person or entity, against the Company or any of the other Released Parties relating to any Released Claims. Employee represents and agrees that he has not filed a workers' compensation claim, and that he has not sustained any work-related injuries or illnesses that would give rise to a workers' compensation claim.

13. **Future Cooperation.** Employee agrees that he will make himself reasonably available, upon reasonable notice, to assist and cooperate in connection with any litigation, arbitrations, investigations, or other administrative or legal proceedings that concern or relate to matters with which he is familiar in connection with services he provided to the Company. The Company shall pay reasonable out-of-pocket expenses, as mutually agreed upon by the Parties, which are incurred by Employee in connection with his participation in such activities.

14. **Breach.** Employee understands and agrees that any material breach of this Agreement on his part shall entitle the Company immediately to recover and/or cease providing the consideration under this Agreement and to obtain damages and other remedial relief as permitted by law.

15. **Revocation Right.** Employee acknowledges and affirms that he is entering into this Agreement knowingly and voluntarily, without coercion or duress of any sort, in order to receive the payment and other consideration as set forth herein. Employee acknowledges and affirms that he has (i) been advised to consult with an attorney before signing this Agreement, (ii) carefully read and fully understands the provisions of this Agreement, and (iii) been given adequate opportunity, including the opportunity to spend twenty-one (21) days from the initial receipt of this Agreement (the "*Consideration Period*"), to review and consider this Agreement before signing it. Nothing in this Agreement prevents Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties, or costs for doing so, unless specifically authorized by law. Employee understands that he may execute this Agreement less than twenty-one (21) days from its receipt from the Company, but he agrees that such execution will represent a knowing waiver of such Consideration Period. Employee acknowledges and understands that he shall have seven (7) days to revoke this Agreement solely with respect to any claims under the ADEA; provided, however, that in the event that he revokes his waiver of claims under the ADEA, he will not be entitled to receive any of the consideration described in this Agreement. Employee further agrees that changes to this Agreement, whether material or immaterial, do not restart the running of the twenty-one (21)-day period. This Agreement shall become effective on the eighth day following Employee's signature on, and non-revocation of the Agreement ("*Effective Date*"). Should Employee elect to revoke this Agreement, he must do so by sending a written notice of revocation to Ron Webb, Vice President, Chief Human Resource Officer at rwebb@calwater.com

16. **Arbitration.** The Parties agree to attempt to resolve any dispute or claim arising out of or relating to interpretation or enforcement of this Agreement through discussing the matter, respectfully listening to the other side's concerns, and working together to find a solution to the problem. Because litigation is a costly and time-consuming process, Employee and the Company agree that should such discussions prove unsuccessful, they will submit any legally actionable dispute or claim arising out of or relating to interpretation or enforcement of this Agreement to binding arbitration. The arbitration will be conducted by an impartial arbitrator selected from the Judicial

Arbitration & Mediation Services ("*JAMS*") panel of arbitrators in accordance with the then-current JAMS Employment Arbitration Rules and Procedures. The costs of such arbitration shall be born equally by the Parties, including the fees of the arbitrator, and each Party shall be responsible for paying its own attorneys' fees and costs. By agreeing to submit disputes to arbitration, the Employee and Company expressly waive the right to institute a court action, except for requests for injunctive relief pending arbitration, and the Parties understand that each Party is giving up the right to pursue a court action before a judge or jury. The arbitrator's award and opinion shall be in writing and shall be final and binding on the Parties. The arbitration shall take place in Santa Clara County, California, unless otherwise agreed to by the Parties in writing. The arbitrator may award attorneys' fees to the prevailing party, if permitted by applicable law. This agreement to arbitrate disputes does not prohibit either party from pursuing a claim for injunctive relief in a court of law pending the arbitration.

17. **Miscellaneous.**

a. **Entire Agreement**. This Agreement constitutes the complete, final, and exclusive embodiment of the entire agreement between the Employee and Company with regard to the subject matter described herein. This Agreement is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties, or representations. Any changes or modifications must be made in writing and signed by both Employee and an authorized representative of the Company.

b. **Binding Effect**. This Agreement shall be binding upon the Employee, his spouse, heirs, administrators, successors, and assigns, and shall inure to the benefit of the Company, and its successors and assigns.

c. **No Admission of Liability**. The Company enters into this Agreement for the sole purpose of avoiding any potential disputes or misunderstandings. This Agreement shall in no way be construed as an admission by the Company, or any of the Released Parties, of any wrongful conduct, or that Employee has any rights or claims against the Company or the other Released Parties. Similarly, this Agreement shall in no way be construed as an admission by Employee of any wrongful conduct, or that the Company has any rights or claims against the Employee.

d. **Construction and Invalidity**. In the event that any provision of this Agreement is determined to be legally invalid or unenforceable by any court of competent jurisdiction, the affected provision shall be stricken from the Agreement, and the remaining terms of the Agreement and its enforceability shall remain unaffected.

e. **Governing Law**. This Agreement shall be interpreted and construed in accordance with the laws of the State of California. Any and all claims, controversies, and causes of action arising out of or relating to this Agreement, whether sounding in contract, tort, or statute, shall be governed by the laws of the State of California, including its statutes of limitations, without giving effect to any conflict-of-laws or other rule that would result in the application of the laws of a different jurisdiction

f. **Release Voluntary; Joint Effort.** The Parties each acknowledge that they understand the words, terms, and effects of this Agreement and that the Employee and Company have entered into this Agreement voluntarily. The Parties further acknowledge and agree that this Agreement was prepared by, and is the joint effort of, the Parties through negotiation. Accordingly, any ambiguity, uncertainty or vagueness in the construction or interpretation of this Agreement shall not be attributed to either Party, and the Parties agree the theory of construction that a document should be construed against the draft party is inapplicable.

g. **Counterparts.** This Agreement may be signed in counterparts and by facsimile or in pdf format, and each counterpart and facsimile/pdf shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each party.

CALIFORNIA WATER SERVICE COMPANY

Dated: June 2, 2023 By: /s/ Ron Webb

RON WEBB
Vice President, Chief Human Resource Officer

Dated: May 31, 2023 By: /s/ Robert J. Kuta

ROBERT J. KUTA

Attachment A

2023 Monthly Retiree Rates	Single	Member + 1	Member +2 or more
Cal Water Medical Plan/Kaiser Primary	$537.27	$1,074.54	$1,611.81
Medicare/Kaiser Sr. Adv. Primary*	$184.95	$369.90	$554.85
Delta Dental	$34.40	$68.80	$103.20
VSP	$5.68	$11.36	$17.04

*Must be enrolled in Medicare Part A & B to qualify for the lower premium.

Active Employee Healthcare Contribution Rates for 2023

	Employee Only	Employee +1	Employee + 2, or more
CWS Medical	$162.00	$324.00	$485.99
Dental	$10.33	$20.66	$30.98
Vision	$1.26	$2.53	$3.80

2023 COBRA Rates

	Employee Only	Employee +1	Employee + 2, or more
Cal Water PPO Medical Plan	$826.19	$1,652.38	$2,478.57
Cal Water EPO Medical Plan	$741.12	$1,482.25	$2,223.39
Kaiser Plan of California	$676.08	$1,352.17	$2,028.25
Delta Dental	$52.67	$105.36	$158.01
VSP	$6.45	$12.91	$19.36

Exhibit 31.1

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

I, Martin A. Kropelnicki, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2023, 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 27, 2023

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

Exhibit 31.2

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

I, David B. Healey, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2023, 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 27, 2023	By:	/s/ David B. Healey
		DAVID B. HEALEY
		Vice President, Chief Financial Officer and Treasurer

Exhibit 32

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this quarterly report on Form 10-Q for the period ended June 30, 2023 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 27, 2023	By:	/s/ Martin A. Kropelnicki
		MARTIN A. KROPELNICKI Chairman, President and Chief Executive Officer California Water Service Group
Date: July 27, 2023	By:	/s/ David B. Healey
		DAVID B. HEALEY Vice President, Chief Financial Officer and Treasurer California Water Service Group