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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission file number 1-13883

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

Delaware (State or other jurisdiction of incorporation or organization)	**77-0448994** (I.R.S. Employer identification No.)
1720 North First Street, San Jose, CA. (Address of principal executive offices)	**95112** (Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding as of October 21, 2012 — 41,905,495

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PART I FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS

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

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited
(In thousands, except per share data)

	September 30, 2012	December 31, 2011
ASSETS		
Utility plant:		
Utility plant	$ 2,065,679	$ 1,960,381
Less accumulated depreciation and amortization	(622,553)	(579,262)
Net utility plant	1,443,126	1,381,119
Current assets:		
Cash and cash equivalents	16,971	27,203
Receivables:		
Customers	48,087	28,418
Regulatory balancing accounts	33,171	21,680
Other	12,277	6,422
Unbilled revenue	23,474	15,068
Materials and supplies at average cost	6,029	5,913
Taxes, prepaid expenses and other assets	10,089	9,184
Total current assets	150,098	113,888
Other assets:		
Regulatory assets	334,000	319,898
Goodwill	2,615	2,615
Other assets	45,994	37,067
Total other assets	382,609	359,580
	$ 1,975,833	$ 1,854,587
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, $.01 par value— 68,000 shares authorized, 41,905 and 41,817 outstanding in 2012 and 2011, respectively	$ 419	$ 418
Additional paid-in capital	220,642	219,572
Retained earnings	253,875	229,839
Total common stockholders' equity	474,936	449,829
Long-term debt, less current maturities	479,460	481,632
Total capitalization	954,396	931,461
Current liabilities:		
Current maturities of long-term debt	6,677	6,533
Short-term borrowings	60,675	47,140
Accounts payable	58,839	48,923
Regulatory balancing accounts	5,533	2,655
Accrued interest	11,046	4,756
Accrued expenses and other liabilities	47,464	41,868
Total current liabilities	190,234	151,875
Unamortized investment tax credits	2,254	2,254
Deferred income taxes, net	164,245	116,368
Pension and postretirement benefits other than pensions	234,432	232,110
Regulatory and other liabilities	87,037	79,050
Advances for construction	188,249	187,278
Contributions in aid of construction	154,986	154,191
	$ 1,975,833	$ 1,854,587

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited
(In thousands, except per share data)

For the three months ended	September 30, 2012	September 30, 2011
Operating revenue	$ 178,135	$ 169,254
Operating expenses:		
Operations:		
Water production costs	66,489	61,593
Administrative and general	23,925	21,646
Other operations	17,658	17,506
Maintenance	4,377	4,651
Depreciation and amortization	13,720	12,729
Income taxes	10,387	15,881
Property and other taxes	5,218	5,170
Total operating expenses	141,774	139,176
Net operating income	36,361	30,078
Other income and expenses:		
Non-regulated revenue	3,756	3,425
Non-regulated expenses, net	(2,697)	(6,489)
Income tax (expense) benefit on other income and expenses	(422)	1,254
Net other income (expense)	637	(1,810)
Interest expense:		
Interest expense	8,024	8,007
Less: capitalized interest	(798)	(674)
Net interest expense	7,226	7,333
Net income	$ 29,772	$ 20,935
Earnings per share		
Basic	$ 0.71	$ 0.50
Diluted	$ 0.71	$ 0.50
Weighted average shares outstanding		
Basic	41,905	41,780
Diluted	41,905	41,789
Dividends declared per share of common stock	$ 0.15750	$ 0.15375

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited
(In thousands, except per share data)

For the nine months ended	September 30, 2012	September 30, 2011
Operating revenue	$ 438,436	$ 398,800
Operating expenses:		
Operations:		
Water production costs	158,119	138,296
Administrative and general	69,110	62,702
Other operations	59,213	47,879
Maintenance	14,742	15,138
Depreciation and amortization	41,383	37,690
Income taxes	19,477	23,278
Property and other taxes	13,802	14,236
Total operating expenses	375,846	339,219
Net operating income	62,590	59,581
Other income and expenses:		
Non-regulated revenue	11,943	11,497
Non-regulated expenses, net	(8,491)	(13,360)
Income tax (expense) benefit on other income and expenses	(1,383)	776
Net other income (expense)	2,069	(1,087)
Interest expense:		
Interest expense	23,484	24,556
Less: capitalized interest	(2,647)	(1,906)
Net interest expense	20,837	22,650
Net income	$ 43,822	$ 35,844
Earnings per share		
Basic	$ 1.05	$ 0.86
Diluted	$ 1.05	$ 0.86
Weighted average shares outstanding		
Basic	41,886	41,743
Diluted	41,886	41,756
Dividends declared per share of common stock	$ 0.47250	$ 0.46125

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited
(In thousands)

For the nine months ended:	September 30, 2012	September 30, 2011
Operating activities		
Net income	$ 43,822	$ 35,844
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,722	39,013
Change in value of life insurance contracts	(2,244)	2,829
Other changes in noncurrent assets and liabilities	28,411	2,628
Changes in operating assets and liabilities:		
Receivables	(34,462)	(25,485)
Accounts payable	13,066	15,011
Other current assets	(2,491)	7,591
Other current liabilities	10,581	20,293
Net adjustments	55,583	61,880
Net cash provided by operating activities	99,405	97,724
Investing activities:		
Utility plant expenditures	(99,600)	(89,517)
Purchase of life insurance	(3,199)	(1,744)
Restricted cash decrease (increase)	1,553	(50)
Net cash (used in) investing activities	(101,246)	(91,311)
Financing activities:		
Short-term borrowings	65,565	16,110
Repayment of short-term borrowing	(52,030)	—
Proceeds from long-term debt	123	135
Repayment of long-term debt	(2,123)	(1,744)
Issuance of common stock	—	965
Advances and contributions in aid of construction	5,491	6,240
Refunds of advances for construction	(5,632)	(4,439)
Dividends paid	(19,785)	(19,245)
Net cash (used in) financing activities	(8,391)	(1,978)
Change in cash and cash equivalents	(10,232)	4,435
Cash and cash equivalents at beginning of period	27,203	42,277
Cash and cash equivalents at end of period	$ 16,971	$ 46,712
Supplemental information		
Cash paid for interest (net of amounts capitalized)	$ 13,721	$ 14,222
Cash paid for income taxes	$ —	$ 43
Refund for income taxes	$ (3,498)	$ (4,000)
Supplemental disclosure of non-cash activities:		
Accrued payables for investments in utility plant	$ 9,654	$ 7,746
Utility plant contribution by developers	$ 11,868	$ 11,263

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Organization and Operations and Basis of Presentation

California Water Service Group (the Company) is a holding company that provides water utility and other related services in California, Washington, New Mexico and Hawaii through its 100% owned subsidiaries. California Water Service Company (Cal Water), Washington Water Service Company (Washington Water), New Mexico Water Service Company (New Mexico Water), and Hawaii Water Service Company, Inc. (Hawaii Water) provide regulated utility services under the rules and regulations of their respective state's regulatory commissions (jointly referred to herein as the Commissions). CWS Utility Services and HWS Utility Services LLC provide non-regulated water utility and utility-related services.

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

Basis of Presentation

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC) and therefore do not contain all of the information and footnotes required by GAAP and the SEC for annual financial statements. The condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2011, included in its annual report on Form 10-K as filed with the SEC on February 29, 2012.

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

In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals that are necessary to provide a fair presentation of the results for the periods covered. The results for interim periods are not necessarily indicative of the results for any future period.

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

The Company evaluated its operations through the time these financials were issued and determined there were no subsequent events requiring adjustments or disclosures as of the time these financial statements were issued.

Note 2. Summary of Significant Accounting Policies

Revenue

Revenue generally includes monthly cycle customer billings for regulated water and wastewater services at rates authorized by regulatory commissions (plus an estimate for water used between the customer's last meter reading and the end of the accounting period) and billings to certain non-regulated customers at rates authorized by contract with government agencies.

The Company's regulated water and waste water revenue requirements are authorized by the Commissions in the states in which it operates. The revenue requirements are intended to provide the Company a reasonable opportunity to recover its operating costs and earn a return on investments.

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For metered customers, Cal Water recognizes revenue from rates which are designed and authorized by the California Public Utilities Commission (CPUC). Under the Water Revenue Adjustment Mechanism (WRAM), Cal Water records the adopted level of volumetric revenues, which would include recovery of cost of service and a return on investments, as established by the CPUC for metered accounts (adopted volumetric revenues). In addition to volumetric-based revenues, the revenue requirements approved by the CPUC include service charges, flat rate charges, and other items not subject to the WRAM. The adopted volumetric revenue considers the seasonality of consumption of water based upon historical averages. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts is recorded as a component of revenue with an offsetting entry to a regulatory asset or liability balancing account (tracked individually for each Cal Water district) subject to certain criteria under the accounting for regulated operations being met. The variance amount may be positive or negative and represents amounts that will be billed or refunded to customers in the future.

Cost-recovery rates are designed to permit full recovery of certain costs allowed to be recovered by the Commissions. Cost-recovery rates such as the Modified Cost Balancing Account (MCBA) provides for recovery of adopted expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. In addition, cost-recovery rates include recovery of cost related to water conservation programs and certain other operation expenses adopted by the CPUC. Variances (which include the effects of changes in both rate and volume for the MCBA) between adopted and actual costs are recorded as a component of revenue, as the amount of such variances will be recovered from or refunded to our customers at a later date. There is no markup for return or profit for cost-recovery expenses and they are generally recognized when expenses are incurred.

The balances in the WRAM and MCBA assets and liabilities accounts will fluctuate on a monthly basis depending upon the variance between adopted and actual results. The recovery or refund of the WRAM is netted against the MCBA over- or under-recovery for the corresponding district and is interest bearing at the current 90 day commercial paper rate. Cal Water files with the CPUC to refund or collect the net WRAM and MCBA balances. As of September 30, 2012, $1.5 million of net WRAM and MCBA operating revenues and $1.2 million of associated costs were deferred because the Company concluded it would not be able to collect those amounts within 24-months of the respective reporting period. On April 19, 2012, the CPUC issued a decision to shorten the amortization periods for Cal Water's undercollected net WRAM and MCBA receivable balances for calendar years 2011, 2012, and 2013. The shortened amortization periods for 2011 undercollected balances resulted in recording $11.4 million of deferred net WRAM and MCBA operating revenues and $9.3 million of associated costs during the nine months ended September 30, 2012, because these amounts become collectable within 24 months. This change increased income before income taxes by $2.1 million during the nine months ended September 30, 2012.

The change to net WRAM and MCBA deferred balances during the nine month period ended September 30, 2012 were:

	Operating Revenues	Operating Costs	Income Before Income Taxes
Net WRAM and MCBA deferral as of December 31, 2011	$ 12,864	$ 10,492	$ 2,372
Less: reversal of prior deferral during the first quarter of 2012	(8,846)	(7,215)	(1,631)
Add: net WRAM and MCBA deferral the first quarter of 2012	110	90	20
Net amount recorded during the first quarter of 2012	(8,736)	(7,125)	(1,611)
Net WRAM and MCBA deferral as of March 31, 2012	4,128	3,367	761
Less: reversal of prior deferral during the second quarter of 2012	(640)	(521)	(119)
Add: net WRAM and MCBA deferral the second quarter of 2012	352	287	65
Net amount recorded during the second quarter of 2012	(288)	(234)	(54)
Net WRAM and MCBA deferral as of June 30, 2012	3,840	3,133	707
Less: reversal of prior deferral during the third quarter of 2012	(2,809)	(2,291)	(518)
Add: net WRAM and MCBA deferral the third quarter of 2012	477	389	88
Net amount recorded during the third quarter of 2012	(2,332)	(1,902)	(430)
Net WRAM and MCBA deferral as of September 30, 2012	$ 1,508	$ 1,231	$ 277

The deferred net WRAM and MCBA operating revenue and associated costs were determined using forecasts of rate payer consumption trends in future reporting periods and the timing of when the CPUC will authorize Cal Water's filings to recover the undercollected balances. The deferred revenue and associated cost amounts will be recorded in future periods when the Company concludes it will be able to collect those amounts within 24-months of the respective reporting period.

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The net WRAM and MCBA under- or overcollected balances are:

	September 30, 2012	December 31, 2011

Net short-term receivable	$	33,171	$	19,357
Net long-term receivable		18,839		30,268
Total receivable	$	52,010	$	49,625
Net short-term payable	$	291	$	543
Net long-term payable		157		145
Total payable	$	448	$	688

Flat rate customers are billed in advance at the beginning of the service period. The revenue is prorated so that the portion of revenue applicable to the current period is included in that period's revenue, with the balance recorded as unearned revenue on the balance sheet and recognized as revenue when earned in the subsequent accounting period. Unearned revenue liability was $1.8 and $1.9 million as of September 30, 2012 and December 31, 2011, respectively. This liability is included in "accrued expenses and other liabilities" on the condensed consolidated balance sheets.

Note 3. Stock-based Compensation

Equity Incentive Plan

The Company's equity incentive plan was approved by stockholders on April 27, 2005. The Company is authorized to issue awards up to 2,000,000 shares of common stock. During the nine months ended September 30, 2012 and 2011, the Company granted annual Restricted Stock Awards (RSAs) of 98,422 and 85,426 shares, respectively, of common stock to officers and directors of the Company and 9,959 shares of RSAs were cancelled during the nine months ended September 30, 2012. Employee RSAs vest over 48-months, while director RSAs vest at the end of 12- months. During the first nine-months of 2012 and 2011, the shares granted were valued at $17.96 and $17.44 per share, respectively, based upon the fair market value of the Company's common stock on the date of grant.

The Company has recorded compensation costs for the RSAs in Operating Expense in the amount of $1.1 million for the nine months ended September 30, 2012 and $1.0 million for the nine months ended September 30, 2011. Compensation costs were $0.3 million for the three months ended September 30, 2012 and $0.3 million for the three months ended September 30, 2011.

Note 4. Earnings Per Share Calculations

The computations of basic and diluted earnings per share are noted below. Basic earnings per share are computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts were exercised or converted into common stock. RSAs are included in the common shares outstanding because the shares have all the same voting and dividend rights as issued and unrestricted common stock. The Company's 2 for 1 stock split has been adjusted retroactively for all periods presented.

All RSAs are dilutive and the dilutive effect is shown in the table below.

	Three months Ended September 30,			
	2012		2011	
Net income available to common stockholders	$	29,772	$	20,935
Weighted average common shares, basic		41,905		41,780
Dilutive common stock options (treasury method)		—		9
Shares used for dilutive computation		41,905		41,789
Net income per share - basic	$	0.71	$	0.50
Net income per share - diluted	$	0.71	$	0.50

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	Nine months Ended September 30,			
	2012		2011	
Net income available to common stockholders	$	43,822	$	35,844
Weighted average common shares, basic		41,886		41,743
Dilutive common stock options (treasury method)		—		13
Shares used for dilutive computation		41,886		41,756
Net income per share - basic	$	1.05	$	0.86
Net income per share - diluted	$	1.05	$	0.86

Note 5. Pension Plan and Other Postretirement Benefits

The Company provides a qualified, defined-benefit, non-contributory pension plan for substantially all employees. The Company makes annual contributions to fund the amounts accrued for 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 payments by the Company related to pension plans and other postretirement benefit plans were $25.5 million for the nine months ended September 30, 2012 compared to $15.8 million for the nine months ended September 30, 2011. The 2012 estimated cash contributions to the pension plans is $28.6 million and to the other postretirement benefit plans is $8.8 million.

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

	Three months Ended September 30							
	Pension Plan				Other Benefits			
	2012		2011		2012		2011	
Service cost	$	3,863	$	2,928	$	1,374	$	990
Interest cost		3,822		3,671		986		895
Expected return on plan assets		(2,890)		(2,237)		(458)		(344)
Recognized net initial APBO (1)		N/A		N/A		69		69

Amortization of prior service cost	1,571	1,580	29	29
Recognized net actuarial loss	2,000	1,017	793	504
Net periodic benefit cost	$ 8,366	$ 6,959	$ 2,793	$ 2,143

	Nine months Ended September 30			
	Pension Plan		Other Benefits	
	2012	2011	2012	2011
Service cost	$ 11,588	$ 8,785	$ 4,121	$ 2,971
Interest cost	11,465	11,012	2,958	2,683
Expected return on plan assets	(8,669)	(6,712)	(1,374)	(1,032)
Recognized net initial APBO (1)	N/A	N/A	207	207
Amortization of prior service cost	4,712	4,740	87	87
Recognized net actuarial loss	6,001	3,051	2,379	1,512
Net periodic benefit cost	$ 25,097	$ 20,876	$ 8,378	$ 6,428

(1) APBO - Accumulated postretirement benefit obligation

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Note 6. Short-term Borrowings

On June 29, 2011, the Company and Cal Water entered into Syndicated Credit Facilities, which provide for unsecured revolving credit facilities of up to an initial aggregate amount of $400 million. The Syndicated Credit Facilities amend, expand, and replace the Company's and its subsidiaries' existing credit facilities originally entered into on October 27, 2009. The new credit facilities extended the terms until June 29, 2016, increased the Company's and Cal Water's unsecured revolving lines of credit, and lowered interest rates and fees. The Company and subsidiaries which it designates may borrow up to $100 million under the Company's revolving credit facility. Cal Water may borrow up to $300 million under its revolving credit facility; however, all borrowings need to be repaid within 12-months unless otherwise authorized by the CPUC. The proceeds from the revolving credit facilities may be used for working capital purposes, including the short-term financing of capital projects. The base loan rate may vary from LIBOR plus 72.5 basis points to LIBOR plus 95 basis points, depending on the Company's total capitalization ratio. Likewise, the unused commitment fee may vary from 8 basis points to 12.5 basis points based on the same ratio.

Both short-term unsecured credit agreements contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, these unsecured credit agreements contain financial covenants governing the Company and its subsidiaries' consolidated total capitalization ratio and interest coverage ratio. As of September 30, 2012, the Company and Cal Water have met all borrowing covenants for both credit agreements.

As of September 30, 2012 and December 31, 2011, the outstanding borrowings on the Company lines of credit were $60.7 million and $47.1 million, respectively, and there were no outstanding borrowings on the Cal Water lines of credit as of September 30, 2012 and December 31, 2011. For the nine months ended September 30, 2012, the average borrowing rate was 1.7% compared to 2.6% for the same period last year.

Note 7. Income Taxes

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

The Company's estimated annual effective tax rate was 41.8% and 41.2% for the nine months ended September 30, 2012 and 2011, respectively, excluding discrete items. The Company's actual effective rates for the three months ended September 30, 2012 and 2011 was 26.6% and 41.1%, respectively and reflect the recording of a discrete tax item in 2012. The Company's actual effective rates for the nine months ended September 30, 2012 and 2011 was 32.6% and 38.4%, respectively and reflect the tax effects of discrete items for both years. The Company considers these discrete items as infrequently occurring or unusual.

Effective January 1, 2012, the corporate federal income tax repairs and maintenance deduction for qualified tangible property became mandatory for qualified property placed into service during 2012 and prior years. The new tax regulations require the Company to deduct a significant amount of costs previously capitalized for book and tax purposes. The Company completed its' analysis of the federal repairs and maintenance deduction related to 2011 and prior years during the third quarter of 2012. The Company's federal repairs and maintenance deduction for qualified tangible property placed into service during 2011 and prior years was $86.7 million and created a $30.4 million deferred tax liability for the temporary timing difference between book and tax treatments as of September 30, 2012. An estimate for the 2012 federal repairs deduction was not recorded as of September 30, 2012. The 2011 and prior year federal repairs and maintenance deduction eliminated the Company's 2010 and 2011 previously filed federal qualified U.S. production activities deductions (QPAD) and was recorded as an $0.8 million federal income tax expense during the three months ended September 30, 2012. The 2012 federal income tax QPAD deduction is more likely than not to be eliminated and was excluded from the 2012 tax provision. The Company's state repairs deduction for qualified tangible property deductions placed into service during 2011 and prior years was $122.2 million and was recorded as a $7.0 million reduction to state income tax expense during the third quarter ended September 30, 2012. An estimate for the 2012 state repairs deduction was not recorded as of September 30, 2012.

The repairs and maintenance deductions resulted in a federal and state tax net operating loss (NOL). The NOL carry-forward amounts are more likely than not to be recovered and therefore require no valuation allowance. The NOL carry-forward does not begin to expire until 2032.

The California Franchise Tax Board (FTB) is auditing the Company's 2008 and 2009 California income tax returns. It is uncertain when the FTB will complete its audit. The Company believes that the final resolution of the FTB audit will not have a material adverse impact on its financial condition or results of operations. The Company is not under audit by any other jurisdiction.

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Note 8. Regulatory Assets and Liabilities

During 2011, the CPUC issued a decision regarding the $34.2 million of litigation proceeds previously received by Cal Water during 2008 which is being used to replace infrastructure damaged by the gasoline additive Methyl tert-butyl ether (MTBE). The decision requires use of these proceeds for costs incurred as a result of MTBE contamination with any related benefits to be provided to Cal Water customers. Such usage includes transfer of the amount to contributions in aid of construction (CIAC) for remediation or replacement project costs once complete. Usage of the proceeds is reported to the CPUC through an Advice Letter or General Rate Case filing. As of December 31, 2011, $16.7 million of the proceeds was recorded as CIAC. Cal Water did not use any of the proceeds to replace damaged infrastructure during the third quarter of 2012. The remaining balance of $16.3 million at September 30, 2012 is recorded as other long-term liabilities.

During 2011, Cal Water added balancing accounts for its pension plans and conservation program. Both balancing account effective dates were January 1, 2011. The pension plans balancing account is a two-way balancing account that tracks the differences between actual expenses and adopted rate recovery which will result in either a regulatory asset or liability. The conservation program is a one-way balancing account that tracks the differences between actual expenses and adopted rate recovery which may result in a regulatory liability if actual conservation expenses are less than adopted over the three year period ending December 31, 2013. As of September 30, 2012 there was a pension regulatory asset of $1.9 million and a conservation program regulatory liability of $6.6 million compared to a $1.9 million pension regulatory liability and a conservation program regulatory liability of $4.3 million as of December 31, 2011.

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Note 9. Commitment and Contingencies

Commitments

The Company has significant commitments to lease certain office spaces and water systems and to purchase water from water wholesalers. These commitments are described in Form 10-K for the year ended December 31, 2011. As of September 30, 2012, there were no significant changes from December 31, 2011.

Contingencies

Groundwater Contamination

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

Other Legal Matters

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. The status of each significant matter is reviewed and assessed for potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, a liability is accrued for the estimated loss in accordance with the accounting standards for contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe when taking into account existing reserves the ultimate resolution of these matters will materially affect the Company's financial position, results of operations, or cash flows.

Note 10. 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 hierarchal 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 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices.

Level 2 - Pricing inputs are other than quoted prices inactive markets, but are either directly or indirectly observable as of the reporting date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, or priced with discounted cash flow or option pricing models using highly observable inputs.

Level 3 - Significant inputs to pricing have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those valued with models requiring significant management judgment or estimation.

Specific valuation methods include the following:

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

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Long-term debt fair values were estimated using the published quoted market price, if available, or the discounted cash flow analysis, based on the current rates available using a risk-free rate (a U.S. Treasury securities yield curve) plus a risk premium of 1.19%.

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

	September 30, 2012				
		Fair Value			
	Cost	Level 1	Level 2	Level 3	Total
Long -term debt, including current maturities	$ 486,137	$ —	$ 629,572	$ —	$ 629,572
Advances for construction	188,249	—	67,175	—	67,175
Total	$ 674,386	$ —	$ 696,747	$ —	$ 696,747

	December 31, 2011
	Fair Value

	Cost	Level 1	Level 2	Level 3	Total
Long -term debt, including current maturities	$ 488,165	$ —	$ 625,202	$ —	$ 625,202
Advances for construction	187,278	—	69,959	—	69,959
Total	$ 675,443	$ —	$ 695,161	$ —	$ 695,161

Note 11. Condensed Consolidating Financial Statements

On April 17, 2009, Cal Water issued $100 million aggregate principal amount of 5.875% First Mortgage Bonds due 2019, and on November 17, 2010, Cal Water issued $100 million aggregate principal amount of 5.500% First Mortgage Bonds due 2040, all of which are fully and unconditionally guaranteed by the Company.

The following tables present the condensed consolidating balance sheets as of September 30, 2012 and December 31, 2011, the condensed consolidating statements of income for the three and nine months ended September 30, 2012 and 2011 and the condensed consolidating statements of cash flow for the nine months ended September 30, 2012 and 2011 of (i) California Water Service Group, the guarantor of the first mortgage bonds and the parent company; (ii) California Water Service Company, the issuer of the first mortgage bonds and a 100% owned subsidiary of California Water Service Group; and (iii) the other 100% owned subsidiaries of California Water Service Group.

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CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of September 30, 2012

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	$ 525	$ 1,902,919	$ 169,432	$ (7,197)	$ 2,065,679
Less accumulated depreciation and amortization	(94)	(592,236)	(31,697)	1,474	(622,553)
Net utility plant	431	1,310,683	137,735	(5,723)	1,443,126
Current assets:					
Cash and cash equivalents	1,198	14,439	1,334	—	16,971
Receivables and unbilled revenue	—	112,641	4,368	—	117,009
Receivables from affiliates	21,085	741	78	(21,904)	—
Other current assets	81	15,003	1,034	—	16,118
Total current assets	22,364	142,824	6,814	(21,904)	150,098
Other assets:					
Regulatory assets	—	331,532	2,468	—	334,000
Investments in affiliates	493,832	—	—	(493,832)	—
Long-term affiliate notes receivable	25,692	7,794	—	(33,486)	—
Other assets	858	38,408	9,585	(242)	48,609
Total other assets	520,382	377,734	12,053	(527,560)	382,609
	$ 543,177	$ 1,831,241	$ 156,602	$ (555,187)	$ 1,975,833
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders' equity	$ 474,936	$ 443,704	$ 55,703	$ (499,407)	$ 474,936
Affiliate long-term debt	7,794	—	25,692	(33,486)	—
Long-term debt, less current maturities	—	476,260	3,200	—	479,460
Total capitalization	482,730	919,964	84,595	(532,893)	954,396
Current liabilities:					
Current maturities of long-term debt	—	5,987	690	—	6,677
Short-term borrowings	60,675	—	—	—	60,675
Payables to affiliates	50	714	21,140	(21,904)	—
Accounts payable	—	54,562	4,277	—	58,839
Accrued expenses and other liabilities	301	59,890	3,852	—	64,043
Total current liabilities	61,026	121,153	29,959	(21,904)	190,234
Unamortized investment tax credits	—	2,254	—	—	2,254
Deferred income taxes, net	(579)	160,880	4,334	(390)	164,245
Pension and postretirement benefits other than pensions	—	234,432	—	—	234,432
Regulatory and other liabilities	—	78,910	8,127	—	87,037
Advances for construction	—	187,360	889	—	188,249
Contributions in aid of construction	—	126,288	28,698	—	154,986
	$ 543,177	$ 1,831,241	$ 156,602	$ (555,187)	$ 1,975,833

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CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2011

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated

ASSETS					
Utility plant:					
Utility plant	$ 324	$ 1,808,568	$ 158,688	$ (7,199)	$ 1,960,381
Less accumulated depreciation and amortization	(51)	(551,345)	(29,251)	1,385	(579,262)
Net utility plant	273	1,257,223	129,437	(5,814)	1,381,119
Current assets:					
Cash and cash equivalents	89	18,475	8,639	—	27,203
Receivables	158	76,227	(4,797)	—	71,588
Receivables from affiliates	7,817	3,446	5	(11,268)	—
Other current assets	—	14,225	872	—	15,097
Total current assets	8,064	112,373	4,719	(11,268)	113,888
Other assets:					
Regulatory assets	—	317,564	2,334	—	319,898
Investments in affiliates	466,515	—	—	(466,515)	—
Long-term affiliate notes receivable	28,921	7,832	—	(36,753)	—
Other assets	1,144	31,662	7,081	(205)	39,682
Total other assets	496,580	357,058	9,415	(503,473)	359,580
	$ 504,917	$ 1,726,654	$ 143,571	$ (520,555)	$ 1,854,587
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders' equity	$ 449,829	$ 417,810	$ 54,377	$ (472,187)	$ 449,829
Affiliate long-term debt	7,832	—	28,921	(36,753)	—
Long-term debt, less current maturities	—	477,998	3,634	—	481,632
Total capitalization	457,661	895,808	86,932	(508,940)	931,461
Current liabilities:					
Current maturities of long-term debt	—	5,851	682	—	6,533
Short-term borrowings	47,140	—	—	—	47,140
Payables to affiliates	52	190	11,026	(11,268)	—
Accounts payable	—	47,568	4,010	—	51,578
Accrued expenses and other liabilities	625	46,462	(547)	84	46,624
Total current liabilities	47,817	100,071	15,171	(11,184)	151,875
Unamortized investment tax credits	—	2,254	—	—	2,254
Deferred income taxes, net	(561)	113,925	3,435	(431)	116,368
Pension and postretirement benefits other than pensions	—	232,110	—	—	232,110
Regulatory and other liabilities	—	71,034	8,016	—	79,050
Advances for construction	—	185,902	1,376	—	187,278
Contributions in aid of construction	—	125,550	28,641	—	154,191
	$ 504,917	$ 1,726,654	$ 143,571	$ (520,555)	$ 1,854,587

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CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the three months ended September 30, 2012

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$ —	$ 168,680	$ 9,455	$ —	$ 178,135
Operating expenses:					
Operations:					
Water production costs	—	63,647	2,842	—	66,489
Administrative and general	—	21,639	2,286	—	23,925
Other operations	—	16,177	1,607	(126)	17,658
Maintenance	—	4,238	139	—	4,377
Depreciation and amortization	—	13,051	699	(30)	13,720
Income tax (benefit) expense	(150)	9,831	372	334	10,387
Property and other taxes	—	4,552	666	—	5,218
Total operating expenses	(150)	133,135	8,611	178	141,774
Net operating income	150	35,545	844	(178)	36,361
Other Income and Expenses:					
Non-regulated revenue	474	3,372	617	(707)	3,756
Non-regulated expense, net	—	(2,217)	(483)	3	(2,697)
Income tax (expense) on other income and expense	(193)	(469)	(82)	322	(422)
Net other income	281	686	52	(382)	637
Interest:					
Interest expense	368	7,702	535	(581)	8,024
Less: capitalized interest	—	(505)	(293)	—	(798)
Net interest expense	368	7,197	242	(581)	7,226
Equity earnings of subsidiaries	29,709	—	—	(29,709)	—
Net income	$ 29,772	$ 29,034	$ 654	$ (29,688)	$ 29,772

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CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the nine months ended September 30, 2012

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$ —	$ 413,796	$ 24,640	$ —	$ 438,436
Operating expenses:					
Operations:					
Water production costs	—	150,396	7,723	—	158,119
Administrative and general	—	62,043	7,067	—	69,110
Other operations	—	54,584	5,008	(379)	59,213
Maintenance	—	14,247	495	—	14,742
Depreciation and amortization	—	39,393	2,079	(89)	41,383
Income tax (benefit) expense	(416)	19,094	(198)	997	19,477
Property and other taxes	—	11,819	1,983	—	13,802
Total operating expenses	(416)	351,576	24,157	529	375,846
Net operating income	416	62,220	483	(529)	62,590
Other Income and Expenses:					
Non-regulated revenue	1,429	10,867	1,805	(2,158)	11,943
Non-regulated expense, net	—	(7,072)	(1,422)	3	(8,491)
Income tax (expense) on other income and expense	(582)	(1,545)	(216)	960	(1,383)
Net other income	847	2,250	167	(1,195)	2,069
Interest:					
Interest expense	1,022	22,648	1,594	(1,780)	23,484
Less: capitalized interest	—	(1,785)	(862)	—	(2,647)
Net interest expense	1,022	20,863	732	(1,780)	20,837
Equity earnings of subsidiaries	43,581	—	—	(43,581)	—
Net income (loss)	$ 43,822	$ 43,607	$ (82)	$ (43,525)	$ 43,822

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CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the three months ended September 30, 2011

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$ —	$ 160,297	$ 8,957	$ —	$ 169,254
Operating expenses:					
Operations:					
Water production costs	—	58,913	2,680	—	61,593
Administrative and general	—	19,359	2,287	—	21,646
Other operations	—	15,746	1,886	(126)	17,506
Maintenance	—	4,417	234	—	4,651
Depreciation and amortization	—	12,110	650	(31)	12,729
Income tax (benefit) expense	(135)	15,659	(24)	381	15,881
Property and other taxes	—	4,537	633	—	5,170
Total operating expenses	(135)	130,741	8,346	224	139,176
Net operating income	135	29,556	611	(224)	30,078
Other Income and Expenses:					
Non-regulated revenue	558	3,033	678	(844)	3,425
Non-regulated expense, net	—	(6,005)	(484)	—	(6,489)
Income tax (expense) benefit on other income and expense	(227)	1,211	(99)	369	1,254
Net other income (expense)	331	(1,761)	95	(475)	(1,810)
Interest:					
Interest expense	330	7,764	630	(717)	8,007
Less: capitalized interest	—	(434)	(240)	—	(674)
Net interest expense	330	7,330	390	(717)	7,333
Equity earnings of subsidiaries	20,799	—	—	(20,799)	—
Net income	$ 20,935	$ 20,465	$ 316	$ (20,781)	$ 20,935

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CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the nine months ended September 30, 2011

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$ —	$ 375,851	$ 22,949	$ —	$ 398,800

Operating expenses:					
Operations:					
Water production costs	—	131,004	7,292	—	138,296
Administrative and general	—	56,582	6,120	—	62,702
Other operations	—	42,741	5,518	(380)	47,879
Maintenance	—	14,567	571	—	15,138
Depreciation and amortization	—	35,802	1,981	(93)	37,690
Income tax (benefit) expense	(427)	23,270	(714)	1,149	23,278
Property and other taxes	—	12,505	1,731	—	14,236
Total operating expenses	(427)	316,471	22,499	676	339,219
Net operating income	427	59,380	450	(676)	59,581
Other Income and Expenses:					
Non-regulated revenue	1,647	8,760	3,595	(2,505)	11,497
Non-regulated expense, net	—	(10,815)	(2,607)	—	(13,422)
Gain on sale of properties	—	62	—	—	62
Income tax (expense) benefit on other income and expense	(671)	812	(476)	1,111	776
Net other income (expense)	976	(1,181)	512	(1,394)	(1,087)
Interest:					
Interest expense	1,047	23,800	1,834	(2,125)	24,556
Less: capitalized interest	—	(1,298)	(608)	—	(1,906)
Net interest expense	1,047	22,502	1,226	(2,125)	22,650
Equity earnings of subsidiaries	35,488	—	—	(35,488)	—
Net income (loss)	$ 35,844	$ 35,697	$ (264)	$ (35,433)	$ 35,844

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CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the nine months ended September 30, 2012

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income (loss)	$ 43,822	$ 43,607	$ (82)	$ (43,525)	$ 43,822
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Equity earnings of subsidiaries	(43,581)	—	—	43,581	—
Dividends received from affiliates	19,785	—	—	(19,785)	—
Depreciation and amortization	—	40,604	2,207	(89)	42,722
Change in value of life insurance contracts	—	(2,244)	—	—	(2,244)
Other changes in noncurrent assets and liabilities	1,180	30,928	(3,815)	118	28,411
Changes in operating assets and liabilities:					
Other changes, net	(247)	(10,557)	(2,417)	(85)	(13,306)
Net adjustments	(22,863)	58,731	(4,025)	23,740	55,583
Net cash provided by (used in) operating activities	20,959	102,338	(4,107)	(19,785)	99,405
Investing activities:					
Utility plant expenditures	—	(88,593)	(11,007)	—	(99,600)
Purchase of life insurance	—	(3,199)	—	—	(3,199)
Restricted cash and other changes	—	1,553	—	—	1,553
Net changes in affiliate advances	(13,975)	2,708	—	11,267	—
Proceeds from affiliate long-term debt	411	36	—	(447)	—
Net cash (used in) investing activities	(13,564)	(87,495)	(11,007)	10,820	(101,246)
Financing Activities:					
Short-term borrowings	14,535	51,030	—	—	65,565
Repayment of short-term borrowings	(1,000)	(51,030)	—	—	(52,030)
Net changes in affiliate advances	—	524	10,743	(11,267)	—
Repayment of affiliate long-term borrowings	(36)	—	(411)	447	—
Proceeds from long-term debt	—	—	123	—	123
Repayment of long-term borrowings	—	(1,573)	(550)	—	(2,123)
Advances and contributions in aid for construction	—	5,416	75	—	5,491
Refunds of advances for construction	—	(5,575)	(57)	—	(5,632)
Dividends paid to non-affiliates	(19,785)	—	—	—	(19,785)
Dividends paid to affiliates	—	(17,671)	(2,114)	19,785	—
Issuance of common stock	—	—	—	—	—
Net cash (used in) provided by financing activities	(6,286)	(18,879)	7,809	8,965	(8,391)
Change in cash and cash equivalents	1,109	(4,036)	(7,305)	—	(10,232)
Cash and cash equivalents at beginning of period	89	18,475	8,639	—	27,203
Cash and cash equivalents at end of period	$ 1,198	$ 14,439	$ 1,334	$ —	$ 16,971

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CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2011

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income (loss)	$ 35,844	$ 35,697	$ (264)	$ (35,433)	$ 35,844
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Equity earnings of subsidiaries	(35,488)	—	—	35,488	—
Dividends received from affiliates	19,245	—	—	(19,245)	—
Depreciation and amortization	37	36,986	2,083	(93)	39,013
Change in value of life insurance contracts	—	2,829	—	—	2,829
Other changes in noncurrent assets and liabilities	(248)	1,264	645	—	1,661
Changes in operating assets and liabilities:					
Other changes, net	1,460	20,628	(3,748)	37	18,377
Net adjustments	(14,994)	61,707	(1,020)	16,187	61,880
Net cash provided by (used in) operating activities	20,850	97,404	(1,284)	(19,246)	97,724
Investing activities:					
Utility plant expenditures	—	(72,502)	(17,015)	—	(89,517)
Purchase of life insurance	—	(1,744)	—	—	(1,744)
Restricted cash and other changes	—	(50)	—	—	(50)
Net changes in affiliate advances	(17,230)	(4,835)	—	22,065	—
Proceeds from affiliate long-term debt	618	34	53	(705)	—
Net cash (used in) investing activities	(16,612)	(79,097)	(16,962)	21,360	(91,311)
Financing Activities:					
Short-term borrowings	16,110	—	—	—	16,110
Net changes in affiliate advances	—	—	22,157	(22,157)	—
Repayment of affiliate long-term borrowings	(87)	—	(711)	798	—
Proceeds from long-term debt	—	—	135	—	135
Repayment of long-term borrowings	—	(1,225)	(519)	—	(1,744)
Advances and contributions in aid for construction	—	5,559	681	—	6,240
Refunds of advances for construction	—	(4,429)	(10)	—	(4,439)
Dividends paid to non-affiliates	(19,245)	—	—	—	(19,245)
Dividends paid to affiliates	—	(17,183)	(2,062)	19,245	—
Issuance of common stock	965	—	—	—	965
Net cash (used in) proved by financing activities	(2,257)	(17,278)	19,671	(2,114)	(1,978)
Change in cash and cash equivalents	1,981	1,029	1,425	—	4,435
Cash and cash equivalents at beginning of period	188	40,446	1,643	—	42,277
Cash and cash equivalents at end of period	$ 2,169	$ 41,475	$ 3,068	$ —	$ 46,712

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollar amounts in thousands, except where otherwise noted and per share amounts)

FORWARD LOOKING STATEMENTS

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

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

- governmental and regulatory commissions' decisions, including decisions on proper disposition of property;
- changes in regulatory commissions' policies and procedures;
- the timeliness of regulatory commissions' actions concerning rate relief;
- changes in the capital markets and access to sufficient capital on satisfactory terms;
- new legislation;
- changes in accounting valuations and estimates;
- changes in accounting treatment for regulated companies, including adoption of International Financial Reporting Standards, if required;
- electric power interruptions;
- increases in suppliers' prices and the availability of supplies including water and power;

- fluctuations in interest rates;
- changes in environmental compliance and water quality requirements;
- litigation that may result in damages or costs not recoverable from third parties;
- acquisitions and the ability to successfully integrate acquired companies;
- the ability to successfully implement business plans;
- civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type;
- the involvement of the United States in war or other hostilities;
- our ability to attract and retain qualified employees;
- labor relations matters as we negotiate with the unions;

- federal health care law changes could result in increases to Company health care costs and additional income tax expenses in future years;
- changes in federal and state income tax regulations and treatment of such by regulatory commissions;
- implementation of new information technology systems;
- changes in operations that result in an impairment to acquisition goodwill;
- restrictive covenants in or changes to the credit ratings on current or future debt that could increase financing costs or affect the ability to borrow, make payments on debt, or pay dividends;
- general economic conditions, including changes in customer growth patterns and our ability to collect billed revenue from customers;
- changes in customer water use patterns and the effects of conservation;
- the impact of weather on water sales and operating results;
- the ability to satisfy requirements related to the Sarbanes-Oxley Act and other regulations on internal controls; and
- the risks set forth in "Risk Factors" included elsewhere in this quarterly report.

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

CRITICAL ACCOUNTING POLICIES

We maintain our accounting records in accordance with accounting principles generally accepted in the United States of America (GAAP) and as directed by the regulatory commissions to which we are subject. The process of preparing financial statements in accordance with GAAP requires the use of estimates and assumptions on the part of management. The estimates and assumptions used by management are based on historical experience and our 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 and financial condition. These policies and their key characteristics are discussed in detail in the 2011 Form 10-K. They include:

- revenue recognition and the water revenue adjustment mechanism;
- expense balancing and memorandum accounts;
- modified cost balancing accounts;
- regulatory utility accounting;
- income taxes;
- pension benefits;
- workers' compensation and other claims;
- goodwill accounting and evaluation for impairment; and
- contingencies

For the three and nine month periods ended September 30, 2012, there were no changes in the methodology for computing critical accounting estimates, no additional accounting estimates met the standards for critical accounting policies, and there were no material changes to the important assumptions underlying the critical accounting estimates.

RESULTS OF THIRD QUARTER 2012 OPERATIONS COMPARED TO
THIRD QUARTER 2011 OPERATIONS
Amounts in thousands except share data

Overview

Third quarter of 2012 net income was $29.8 million equivalent to $0.71 per diluted common share compared to net income of $20.9 million or $0.50 per diluted common share in the third quarter of 2011. The increase in net income was primarily attributable to rate increases, a nonrecurring income tax benefit of $0.15 per diluted common share, and an unrealized gain on our benefit plan insurance investments.

Operating Revenue

Operating revenue increased $8.9 million or 5% to $178.1 million in the third quarter of 2012. As disclosed in the following table, the increase was primarily due to rate increases.

The factors that primarily impacted the operating revenue for the third quarter of 2012 compared to 2011 are:

Rate increases (includes a 2012 $1.1 million water cost of capital mechanism revenue reduction)	$	8,377
Usage (includes WRAM and MCBA deferral adjustment)		7,492
Net change due to actual versus adopted results, and other		(6,988)
Net operating revenue increase	$	8,881

The net change due to actual versus adopted results, usage, and other in the above table refers primarily to the revenue impact year over year of the change in revenue recognized by the WRAM and MCBA. The WRAM is impacted by changes in consumption patterns from our historical trends as well as an increase in conservation efforts. The MCBA, which records the differences in production costs from the adopted costs, is recorded as an element of revenue as it represents pass through costs which are billed to customers. The MCBA is impacted by changes in total production quantities, the production mix of the source of water, the price paid for purchased water and power, and the amount of pump taxes paid.

The components of the rate increases are listed in the following table:

Purchase water offset increases	$	4,107
Step rate increases		2,781
General rate case (GRC) increases		1,137
Other		352
Total increase in rates	$	8,377

Total Operating Expenses

Total operating expenses were $141.8 million for the third quarter of 2012, versus $139.2 million for the same period in 2011, a 2% increase.

Water production expense consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 47% of total operating expenses in the third quarter of 2012. Water production expenses increased $4.9 million, or 8%, during the third quarter of 2012 compared to the same period last year due to purchased water and power price increases. These cost increases were partially offset by reductions in customer usage. Our wholly-owned operating subsidiaries, Washington Water, New Mexico Water, and Hawaii Water obtain all of their water supply from wells.

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

	Three Months Ended September 30	
	2012	2011
Well production	50%	50%
Purchased	44%	45%
Surface	6%	5%
Total	100%	100%

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

	Three Months Ended September 30		
	2012	2011	Change
Purchased water	$ 51,428	$ 47,652	$ 3,776
Purchased power	11,440	10,866	574
Pump taxes	3,621	3,075	546
Total	$ 66,489	$ 61,593	$ 4,896

Purchased water costs increased due to price increases from water wholesalers. Total water production, measured in acre feet, increased 3% during the third quarter of 2012 as compared with the third quarter of 2011 due to an increase in customer usage.

Administrative and general expense and other operations expense increased 6% to $41.6 million. The primary reasons for the increase were increases in employee benefits and wage costs, and conservation program expenses during the third quarter of 2012. At September 30, 2012, there were 1,129 employees and at September 30, 2011, there were 1,141 employees.

Maintenance expenses decreased by 6% to $4.4 million in the third quarter of 2012 compared to $4.7 million in the third quarter of 2011, due to a decrease in main and service repairs. Depreciation and amortization expense increased $1.0 million, or 8%, due to 2011 capital additions.

Federal and state income taxes charged to operating expenses and other income and expenses decreased $3.8 million, from a provision of $14.6 million in the third quarter of 2011 to $10.8 million in the third quarter of 2012. The decrease was due to new corporate tax regulations, effective January 1, 2012, that require the Company to deduct costs previously capitalized for book and tax purposes and resulted in a nonrecurring income tax benefit related to 2011 and prior years which reduced income tax expense $6.2 million during the third quarter of 2012. We expect the effective tax rate to be between 31% and 35% for fiscal year 2012.

Other Income and Expense

Other income, net of income taxes, increased $2.4 million during the third quarter of 2012 mostly due to a $0.6 million unrealized gain on our benefit plan insurance investments during the third quarter of 2012 compared to an unrealized loss of $2.9 million during the third quarter of 2011.

Interest Expense

Total interest expense, net of interest capitalized, decreased $0.1 million to $7.2 million for the third quarter of 2012 compared to the same period last year. This decrease was attributable to lower borrowing costs on the short-term lines of credit and an increase in capitalized interest charged to construction projects.

Company Health Care Benefits

In March 2010, both the federal "Patient Protection and Affordable Care Act" (P.L. 111-148) and "Health Care and Education Reconciliation Act" (H.R. 4872) were enacted. We have not determined the impact of this legislation on the Company's health care costs during 2012 and in future years. However, we anticipate that the Company's health care and other costs will increase as a result of the new federal health care laws and based on available information. A new memorandum account was established for Cal Water, effective January 1, 2011, to account for health care cost changes due to federal legislation, as these costs were not included in the 2009 GRC decision.

RESULTS OF THE NINE MONTHS ENDED SEPTEMBER 2012 COMPARED TO
THE NINE MONTHS ENDED SEPTEMBER 2011 OPERATIONS
Amounts in thousands except per share data

Overview

Net income for the nine-month period ended September 30, 2012, was $43.8 million, or $1.05 per diluted common share compared to net income of $35.8 million or $0.86 per diluted common share for the nine months ended September 30, 2011. The increase in net income is primarily attributable to rate increases, a nonrecurring income tax benefit of $0.15 per diluted common share, and an unrealized gain on our benefit plan insurance investments.

Operating Revenue

Operating revenue increased $39.6 million or 10% to $438.4 million in the nine month period ended September 30, 2012. As disclosed in the following table, the increase was due to increases in usage (includes an additional $11.4 million of net WRAM and MCBA operating revenues that were deferred as of December 31, 2011) and rates.

The factors that impacted the operating revenue for the third quarter of 2012 compared to 2011 are as follows:

Usage (includes WRAM and MCBA deferral adjustment)	$	26,978
Rate increases (includes a 2012 $2.7 million water cost of capital mechanism revenue reduction)		23,278
Net change due to actual versus adopted results and other		(10,620)
Net operating revenue increase	$	39,636

The net change due to actual versus adopted results, usage, and other in the above table refers primarily to the revenue impact year over year of the change in revenue recognized by the WRAM and MCBA. The WRAM is impacted by changes in consumption patterns from our historical trends as well as an increase in conservation efforts. The MCBA, which records the differences in production costs from the adopted costs, is recorded as an element of revenue as it represents pass through costs which are billed to customers. The MCBA is impacted by changes in total production quantities, the production mix of the source of water, the price paid for purchased water and power, and the amount of pump taxes paid.

The components of the rate increases are as follows:

Purchased water offset increases	$	13,870
Step rate increases		6,351
General rate case (GRC) increases		2,090
Other		967
Total increase in rates	$	23,278

Total Operating Expenses

Total operating expenses were $375.8 million for the nine months ended September 30, 2012, versus $339.2 million for the same period in 2011, an 11% increase.

Water production expense consists of purchased water, purchased power and pump taxes. Water production expense represents the largest component of total operating expenses, accounting for approximately 42% of total operating expenses. Water production expenses increased $19.8 million in the nine months ended September 30, 2012, or 14% compared to the same period last year due to increased cost of purchased water and pump taxes. Our wholly-owned operating subsidiaries, Washington Water, New Mexico Water, and Hawaii Water obtain all of their water supply from wells.

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

	Nine Months Ended September 30	
	2012	**2011**
Well production	47%	48%
Purchased	47%	46%
Surface	6%	6%
Total	100%	100%

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

	Nine Months Ended September 30		
	2012	2011	Change
Purchased water	$ 125,218	$ 108,121	$ 17,097
Purchased power	24,577	23,198	1,379
Pump taxes	8,324	6,977	1,347
Total	$ 158,119	$ 138,296	$ 19,823

Purchased water costs increased due to higher prices from wholesalers. Pump taxes were higher due to increased production from wells subject to pump taxes. Total water production, measured in acre feet, increased 5% for the first nine months of 2012 compared to the same period last year due to an increase in customer usage.

Administration and general and other operations expenses were $128.3 million, increasing $17.7 million, or 16%, for the nine months ended September 30, 2012. The increase was primarily attributable to increases in employee benefits and wage costs, and conservation program expenses during the nine months ended September 30, 2012.

Maintenance expense decreased $0.4 million, or 3%, for the nine months ended September 30, 2012, to $14.7 million due to less repairs of mains, water treatment facilities, and wells. Depreciation and amortization expense increased $3.7 million, or 10%, due to 2011 capital additions.

Federal and state income taxes charged to operating expenses and other income and expenses decreased $1.6 million, or 7%, for the nine months ended September 30, 2012. The decrease was due to new tax regulations, effective January 1, 2012, that require the Company to deduct costs previously capitalized for book and tax purposes and resulted in a nonrecurring income tax benefit related to 2011 and prior years which reduced income tax expense $6.2 million during the nine months ended September 30, 2012. We expect the effective tax rate to be between 31% and 35% for fiscal year 2012.

Other Income and Expense

Other income, net of income taxes, was $2.1 million for the nine months ended September 30, 2012, compared to a loss of $1.1 million in the same period last year, which was an increase of $3.2 million. The increase was mostly due to a $2.2 million unrealized gain on our benefit plan insurance investments during the nine months ended September 30, 2012 compared to an unrealized loss of $2.8 million during the same period last year

Interest Expense

Net interest expense decreased $1.8 million to $20.8 million for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011. This decrease was attributable to lower borrowing costs on the short-term lines of credit, the TIRBA balancing account interest charges ending on December 31, 2011, and an increase in capitalized interest charged to construction projects during the first nine months of 2012.

Company Health Care Benefits

In March 2010, both the federal "Patient Protection and Affordable Care Act" (P.L. 111-148) and "Health Care and Education Reconciliation Act" (H.R. 4872) were enacted. We have not determined the impact of this legislation on the Company's health care costs during 2012 and in future years. However, we anticipate that the Company's health care and other costs will increase as a result of the new federal health care laws and based on available information. A new memorandum account was established for Cal Water, effective January 1, 2011, to account for health care cost changes due to federal legislation, as these costs were not included in the 2009 GRC decision.

REGULATORY MATTERS

The state regulatory commissions have plenary powers setting rates and operating standards. As such, state commission decisions significantly impact Cal Water's revenues, earnings, and cash flows. The amounts discussed herein are generally annual amounts, unless specifically stated, and the financial impact to recorded revenue is expected to occur over a 12-month period from the effective date of the decision. In California, water utilities are required to make several different types of filings. Most filings result in rate changes that remain in place until the next General Rate Case (GRC). As explained below, surcharges and surcredits are used to recover balancing and memorandum accounts as well as general rate case interim rate catch-up. Surcharges and surcredits are temporary rate changes, which have specific time frames for recovery.

GRCs, escalation rate increase filings, and offset filings change rates to amounts that will remain in effect until the next GRC. The CPUC follows a rate case plan, which requires Cal Water to file a GRC for each of its regulated operating districts every three years. In a GRC proceeding, the CPUC not only considers the utility's rate setting requests, but may also consider other issues that affect the utility's rates and operations. The CPUC is generally required to issue its GRC decision prior to the first day of the test year or authorize interim rates. In accordance with the rate case plan, the Commission issued a decision on Cal Water's 2009 general rate case filing in the fourth quarter of 2010 with rates effective on January 1, 2011. Cal Water filed its 2012 GRC on July 5, 2012, which will be applicable to all of its California Districts. Any rate change as a result of this filing is expected to be effective on January 1, 2014.

Between GRC filings utilities may file escalation rate increases, which allow the utility to recover cost increases, primarily from inflation and incremental investment, during the second and third years of the rate case cycle. However, escalation rate increases are subject to a weather-normalized earnings test on a district-by-district basis. Under the earnings test, the CPUC may reduce the escalation rate increase if, in the most recent 12-month period, this earnings test reflects earnings in excess of authorized for that district.

In addition, California water utilities are entitled to make offset filings. Offset filings may be filed to adjust revenues for construction projects authorized in GRCs when the plant is placed in service or for rate changes charged to the Company for purchased water, purchased power, and pump taxes (referred to as "offsettable expenses"). Such rate changes approved in offset filings remain in effect until the next GRC is approved.

The Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) are required by the CPUC to encourage Cal Water to promote lower water consumption levels with water conservation programs. In order to maintain revenue neutrality, the CPUC de-coupled Cal Water's revenue requirement from ratepayer usage with the WRAM/MCBA. Under the WRAM/MCBA, Cal Water recovers the full quantity revenue amounts authorized by the CPUC by using advice letter filings for any unbilled quantity revenue amounts or refunds for overcollection, regardless of customer usage volumes.

Surcharge and surcredit advice letters to amortize balances in the WRAM and MCBA accounts are filed between February and April of each year based on the district balances for the last calendar year. Based on current CPUC interpretations, surcharges are generally amortized over 12 or 18 months. The WRAM and MCBA amounts are cumulative, so if they are not amortized in a given calendar year, the balance will be carried forward and included with the following year balance.

2012 Regulatory Activity

Changes in CPUC's Procedures for WRAM Amortization

Cal Water, along with four other investor-owned water utilities filed a joint application to change the amortization periods to 24 months or less. The CPUC issued a proposed decision regarding the amortization periods on March 23, 2012 and a final decision on April 19, 2012. The final decision shortened the amortization for undercollected balances for calendar years 2011, 2012, and 2013. Also, the decision authorized Cal Water to bill and collect all year-end undercollected balances. Cal Water anticipates most of the undercollected balances during calendar years 2011, 2012, and 2013 will be collected using 12 and 18- month amortization periods. The collection periods for calendar year 2014 and future years will be determined during the 2012 GRC.

Remaining Balances from Previously Authorized Balancing Accounts Recoveries/Refunds

Prior to the adoption of the MCBA on July 1, 2008, the CPUC required incremental cost balancing accounts (ICBA) memorandum and balancing accounts. The ICBA refunds and billings will be completed during calendar year 2012. As of September 30, 2012, a $0.7 million regulatory asset and a $0.3 million regulatory liability were recorded for the remaining unbilled or un-refunded balances.

California Cost of Capital Applications

Cal Water, along with the three other large water utilities in California, filed an application with the CPUC in May of 2011 to review its cost of capital for 2012 through 2014. The Company and the other applicants reached a settlement with the Division of Ratepayer Advocates that was approved by the CPUC in Decision D.12.07.009. The decision required Cal Water to adopt a 9.99% return on equity and 53.4% equity capital structure for rate setting purposes. Cal Water filed an advice letter to reflect this lower authorized return, resulting in a revenue decrease of $3.9 million. The decision also continues the Water Cost of Capital

Mechanism (WCCM), which requires an additional adjustment to equity returns if there is a large change in the Moody AA utility bond index. The WCCM triggered and Cal Water filed a 2013 rate decrease of $3.8 million effective January 1, 2013. The decision also discontinued the Temporary Interest Rate Balancing Account (TIRBA) and required Cal Water to refund the balance of $1.1 million to customers via a 12-month surcredit. Because this proceeding was scheduled to set the authorized rate of return for the Company's investment starting on January 1, 2012 and a decision had not been issued, the CPUC required Cal Water to file an advice letter to establish a Cost of Capital interim rate memorandum account. In August, Cal Water filed an advice letter to amortize this balance. This will result in a refund to customers of $2.5 million over a 12 month period.

2012 California GRC filing

On July 5, 2012, Cal Water filed its 2012 GRC application covering all district and general office revenue requirements. The GRC application requested an increase of $92.7 million or 19.4% in rates for 2014, $17.2 million or 3.0% in rates for 2015 and $16.9 million or 2.9% in rates for 2016. The GRC also asks the CPUC consider a number of special requests. Any rate change as a result of this filing is expected to be effective on January 1, 2014

2009 California GRC Decision

On July 2, 2009, Cal Water filed its 2009 GRC application covering all district and general office revenue requirements. The GRC application requested an increase of $70.6 million or 16.75% in rates for 2011, $24.8 million or 5.04% in rates for 2012 and $24.8 million or 4.79% in rates for 2013. On December 2, 2010, the CPUC issued decision 10-12-017, which approved a settlement between Cal Water, the Division of Ratepayer Advocates, and several intervenors representing the interests of individual district customers. This decision allows for revenue increases of $25.4 million or 5.6% in 2011. Cal Water is also allowed to file for increases of $9.6 million or 2.0% for 2012, and $9.0 million or 2.0% for 2013 subject to adjustment for indexed inflation and contingent upon passing a weather normalized earnings test. This decision also allows for offset increases after construction of 77 large capital projects in various operating districts. Cal Water has filed advice letter for 24 large capital projects completed and in-service during 2009, 2011, and 2012, with construction costs totaling $22.1 million.

In addition, the Company was authorized to make a deviation from its escalation expense and exclude employee health care, retiree health insurance, and conservation expenses from it escalation filings in 2012 and 2013. Instead for these three significant expense items, the CPUC has enumerated fixed three-year budgets for these expenses. It is anticipated that the budgets for these areas will more closely align with the actual expenses now that this change has been initiated.

The CPUC also authorized a Pension Balancing Account to track the difference between authorized pension contributions included in rates and the costs actually incurred. It is anticipated that this account will allow Cal Water to reduce some of the volatility it experiences in regard to the recovery of these costs from customers.

The Company was also authorized to combine the rates and tariffs of the South San Francisco and the Mid Peninsula Districts, located on the San Francisco peninsula, into a single ratemaking area in 2011. This new ratemaking area is known as the Bayshore District. Previously, the two separate districts had been operated out of a combined location.

Due to the transition between a phased rate case and a total company filing, the CPUC delayed the rate cases of 16 Cal Water districts. However, to compensate for this delay, the CPUC authorized interim rates from the authorized effective date under the old rate case plan. The difference between revenue requirements that were effective in the interim period and those calculated based on a final determination in the 2009 general rate case filing totaled $6.7 million and is being recovered as customer surcharges over a three-year period. During 2011, $3.8 million was billed and recorded as revenue. The remaining balance of $2.9 million is expected to be recovered during 2012 and 2013, and will be recorded as revenue when billed. Overcollected amounts from ratepayers will be recorded as regulatory liability during the reporting period in which it occurs. As of September 30, 2012, the overcollected amount of $0.9 million was recorded as a regulatory liability.

In January 2012, Cal Water implemented escalation rate increases in 17 districts. The annual revenue associated with these increases is $8.7 million.

Low Income Ratepayer Assistance Program

Cal Water currently administers a Low Income Ratepayer Assistance Program in accordance with decision D.06-11-053. This program provides qualifying low income customers with a 50% discount on their service charge (up to a maximum of $12 per month). It imposed a surcharge on non-qualifying customers of $0.01 per hundred cubic feet of monthly water consumption for metered customers and between $0.24 and $0.41 per flat rate service per month. Due to a successful enrollment of over 47,000 customers, this account had accumulated an under collection of approximately $7.5 million as of September 30, 2012, and is

recorded in non-current regulatory assets. During the second quarter of 2012, Cal Water filed a petition to modify D.06-11-053 to 1) increase surcharges to balance program expenses and revenues, 2) amortize the current balance in the program, and 3) establish an annual adjustment mechanism to reduce the potential for large balances in the future. On May 25, 2012, Cal Water and the Division of Ratepayer Advocates (DRA) filed a full settlement of the application with the Commission. The settlement was approved during the month of September 2012 and allows Cal Water to 1) raise its LIRA surcharge on non eligible customers from $0.01 per CCF to $0.06 per CCF to account for more eligible customers participating in the program; 2) adjust surcharges on an annual basis; and 3) put in place a temporary surcharge of $0.0182 to recover the accumulated balance in the program account.

2010 Ka'anapali (Hawaii) GRC Filing

On December 30, 2010, Hawaii Water filed its 2010 GRC application for the Ka'anapali Service Area. The Hawaii Public Utilities Commission (HPUC) requires a separate rate application for all service areas and uses a limited future test year. The Ka'anapali GRC requested additional revenue of $1.5 million or an increase of 38.2% over the prior year. Hawaii Water and the Consumer Advocate of the HPUC reached a tentative settlement on this rate increase. On January 11, 2012, the HPUC issued a Decision and Order approving the stipulated settlement. This resulted in a $1.2 million, or 30.8%, annual revenue increase that was effective March 2012.

2011 Pukalani (Hawaii) GRC Filing

In August 2011, Hawaii Water filed a general rate case for the Pukalani wastewater system requesting $1.3 million in additional annual revenues. Hawaii Water began settlement negotiations with the Consumer Advocate in early 2012. At this time, Hawaii Water cannot determine timing or final amount of rate relief this filing will generate.

2012 Waikoloa (Hawaii) GRC Filings

In August 2012, Hawaii Water filed general rate cases for the Waikoloa water, wastewater, and irrigation systems in Waikoloa Village and Waikoloa Resort requesting $6.3 million additional annual revenues. The Consumer Advocate has not issued any reports on these GRCs and at this time, Hawaii Water cannot determine timing of final amount of rate relief in this filing will generate.

2011 Washington Water GRC Filing

In 2011, Washington Water filed a general rate case for its operations. It requested a $1.7 million, or 21.8%, increase in revenue. On January 26, 2012, the Washington Utilities and Transportation Commission approved a $1.6 million, or 20.0%, increase effective February 2012.

Federal Income Tax Bonus Depreciation

In 2011, Cal Water filed for and received approval to track the benefits from federal income tax accelerated depreciation in a memorandum account due to the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Additional federal income tax deductions for assets placed in service after September 8, 2010 and before December 31, 2011 was $6.6 million for 2010 and estimated at $10.5 million for 2011. The CPUC will determine the disposition of amounts recorded in the memorandum account in Cal Water's next GRC.

Request for MTBE regulatory treatment

The CPUC in its Decision (D.) 10-10-018 issued rules for treating contamination proceeds generally. Subsequently, the CPUC's D.11-03-043 resolved Cal Water's separate application for treatment of MTBE proceeds by ordering continued tracking of the proceeds and expenditures until litigation and remediation are both complete. The new rules allow Cal Water to file an advice letter to move proceeds from this tracking account into Contributions in Aid of Construction ("CIAC") when remediation or replacement projects are complete. Cal Water has completed several such projects totaling $16.7 million. While the advice letters have not been filed for some of these projects, Cal Water believes it is probable the CPUC will treat the invested amounts as CIAC when the advice letters are filed. The Company reclassified $16.7 million from regulatory and other liabilities to CIAC during 2011. Project costs totaling $9.1 million were treated as CIAC in setting rates in the 2009 General Rate Case effective January 1, 2011, so there is no rate impact for this reclassification. For projects not identified in the 2009 General Rate Case, as projects to remediate or replace MTBE-contaminated plant are completed, the Company will book a reclassification from other long-term liabilities to CIAC and adjust rate base during the next GRC. The CPUC's adopted rules would require all contamination proceeds to be used first to pay transactional expenses, then to make ratepayers whole for costs to ensure the water system complies with the CPUC's water quality standards. The rules allow for a risk-based consideration of proceeds which exceed the costs of the remediation

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described above and may result in some sharing of excess, or "net" proceeds. Because treatment or replacement of Cal Water's MTBE contaminated wells will occur over a number of years, a final disposition of Cal Water's memorandum account will occur at an unknown future date. Cal Water will continue to monitor proceeds and remediation and will report to the CPUC in its next GRC. Because of uncertainty surrounding eventual remediation capital and operating costs and the eventual ratemaking treatment of "net proceeds" as defined by the CPUC, Cal Water cannot predict the future disposition of its partial MTBE settlement proceeds at this time.

Service Line Insurance Billing

As a consequence of D.07-12-055 which resolved Cal Water's 2006 GRC, Cal Water was required to demonstrate that its non-regulated Extended Service Protection (ESP) business or its successor complies with CPUC rules. Cal Water made an administrative compliance filing in 2008 which was rejected. Cal Water subsequently filed A.08-05-019 requesting Commission confirmation that the interaction between Cal Water, CWS Utility Services, and Home Service USA complied with all applicable rules. During the proceeding, the CPUC established a memorandum account to record Cal Water's revenues and expenses related to the non-regulated service line insurance business. The application is being processed in 2011 and 2012 after the CPUC adopted comprehensive rules for the relationships between regulated utilities and their unregulated affiliates and the rules for offering non-tariffed products and services. These rules went into effect on June 30, 2011 as a result of D.10-10-019. The CPUC's ratepayer advocate testified that Cal Water's customers should receive some of the proceeds from the sale of the non-regulated ESP business as well as other program revenues. While Cal Water challenged these claims and presented its own testimony, the parties were able to reach a settlement on all issues in the case. The proposed settlement, which was filed in October 2011, describes the accounting and revenue sharing applicable to the non-regulated service line business after June 30, 2011 and proposes a monetary settlement of $2.1 million to ratepayers to resolve all issues related to non-regulated service line business activity from 2007 through June 30, 2011. The settlement is still subject to approval by the CPUC. Cal Water anticipates that the CPUC will approve the settlement in the fourth quarter of 2012. A $2.1 million regulatory liability and reduction to revenues was recorded during the third quarter of 2011. The amount is expected to be refunded on ratepayer bills over a 12-month period.

2012 Expense Offset filings

In 2012, Cal Water filed advice letters to offset increased purchased water and pump tax rates in nine of its regulated districts totaling $13.2 million in annual revenue. Expense offsets are dollar-for-dollar increases in revenue to match increased expenses and interact with the WRAM and MCBA mechanisms so that net operating income is not affected by an offset increase.

In May, Cal Water filed an advice letter to recover the cost relating to the expense of hiring 6 additional Cross Connection Control Inspectors. These positions were approved in the 2009 GRC and Cal Water was allowed to file for the recovery of the positions and associated equipment after the positions were hired. The annual revenue increase from this filing is $0.6 million. In the future, Cal Water plans to file advice letters to offset expected increases in purchased water and pump tax charges in some districts. Cal Water cannot predict the exact timing or dollar amount of the changes.

2012 Ratebase Offset filings

In 2012, Cal Water filed advice letters to offset several infrastructure improvement projects in seven districts totaling $2.0 million in annual revenue. For some of these offsets, Cal Water also filed 12 month surcredits to the customers to account for the use of internal labor to complete the flat to meter projects. These surcredits total $1.2 million. Companies are allowed to file rate base offsets to increase revenues for construction projects authorized in GRCs when the plant is placed in service. The project for this filing was authorized in the 2009 GRC. The remaining advice letter projects from the 2009 GRC are scheduled to be completed during 2012 and 2013.

LIQUIDITY

Cash flows from Operations

Cash flow from operations was $99.4 million during the nine months ended September 30, 2012, compared to $97.7 million for the same period of 2011. In general, cash flow from operations is primarily generated by net income, non-cash expense for depreciation and amortization, deferred income taxes, regulatory liabilities, and other current liabilities. Cash generated by operations varies during the year due to customer billings, timing of contributions to our benefit plans, and timing of vendor and tax payments.

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Effective January 1, 2012, the corporate federal income tax repairs and maintenance deduction for qualified tangible property became mandatory for property placed into service during 2012 and prior years. The new tax regulations require the Company to deduct a significant amount of costs previously capitalized for book and tax purposes. The Company's 2011 and prior years repairs and maintenance deduction significantly reduced its 2012 pre-tax earnings for income tax reporting and is estimated to reduce the Company's income tax cash payments approximately $29 million for 2012. It will also allow the Company to recover $5.5 million during 2013 for federal income taxes paid for tax years 2010 and 2011. The cash savings from the new tax deductions will be used to fund capital expenditures.

On April 19, 2012, the CPUC issued a decision to shorten the amortization periods for Cal Water's undercollected net WRAM and MCBA receivable balances for calendar years 2011, 2012, and 2013. This change is estimated to significantly increase cash collections during 2012.

During the nine months ended September 30, 2012, we made contributions of $25.5 million to our pension and retiree health care plans compared to $15.9 million for the same period of 2011.

The water business is seasonal. Billed revenue is lower in the cool, wet winter months when less water is used compared to the warm, dry summer months when water use is highest. This seasonality results in the possible need for short-term borrowings under the bank lines of credit in the event cash is not available to cover operating and capital 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 years when more than normal precipitation falls in our service areas or temperatures are lower than normal, especially in the summer months. The reduction in water usage reduces cash flows from operations and increases the need for short-term bank borrowings. In addition, short-term borrowings are used to finance capital expenditures until long-term financing is arranged.

Investing Activities

During the nine months ended September 30, 2012 and 2011, we used $99.6 million and $89.5 million, respectively, of cash for both company-funded and developer-funded capital expenditures. For 2012, our capital budget is approximately $100 to $125 million. Annual expenditures fluctuate each year due to the availability of construction resources and our ability to obtain construction permits in a timely manner.

Financing Activities

During the nine months ended September 30, 2012, there were no equity or debt offerings; however, we borrowed $65.6 million on our unsecured revolving credit facilities mostly to finance company-funded capital expenditures.

The undercollected net WRAM and MCBA receivable balances were $52.0 million as of September 30, 2012 and $49.6 million as of December 31, 2011. During the third quarter of 2012, the undercollected net WRAM and MCBA receivable balances decreased $1.7 million from the June 30, 2012 balance of $53.7 million. The decrease was due to cash collections exceeding the growth of net undercollected receivable balances during the third quarter of 2012. Cash collections on the net undercollected receivable balances increased during the third quarter of 2012 because the CPUC authorized Cal Water to bill all year-end net undercollected receivable balances and shortened the amortization periods for most undercollected balances to 18-months or 12-months. The undercollected balances were primarily financed by Cal Water and negatively affected cash flows for the nine months ended September 30, 2012. Cal Water used short-term and long-term financing arrangements to meet operational cash requirements. Interest on the undercollected balances, the interest recoverable from ratepayers, is limited to the current 90-day commercial paper rates which is significantly lower than Cal Water's short and long-term financing rates.

Short-Term and Long-Term Debt

Short-term liquidity is provided by the bank lines of credit described above and by internally generated funds. Long-term financing is accomplished through the use of both debt and equity. As of September 30, 2012, there were short-term borrowings of $60.7 million outstanding on the unsecured revolving line of credit compared to $47.1 million as of December 31, 2011.

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

California Water Service Group and subsidiaries which it designates may borrow up to $100 million under its new short-term credit facility. California Water Service Company may borrow up to $300 million under its new credit facility; however, all borrowings need to be repaid within twelve months unless otherwise authorized by the CPUC.

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Both short-term credit agreements contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, these unsecured credit agreements contain financial covenants governing the Company and its subsidiaries' consolidated total capitalization ratio and interest coverage ratio. As of September 30, 2012, we have met all of the covenant requirements and are eligible to use the full amounts of these credit agreements.

Bond principal and other long-term debt payments were $2.1 million during the nine months ended September 30, 2012, compared to $1.7 million during the same period of 2011.

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

Dividends

The third quarter common stock dividend of $0.1575 per share was paid on August 17, 2012, compared to a quarterly dividend in the third quarter of 2011 of $0.15375. This was our 270th consecutive, quarterly dividend. Annualized, the 2012 dividend rate is $0.63 per common share, compared to $0.615 in 2011. For the full year 2011, the payout ratio was 68% of net income. On a long-term basis, our goal is to achieve a dividend payout ratio of 60% of net income.

At its October 31, 2012 meeting, the Board declared the fourth quarter dividend of $0.1575 per share payable on November 23, 2012, to stockholders of record on November 12, 2012. This will be our 271st consecutive quarterly dividend.

2012 Financing Plan

Cal Water is currently reviewing its financing needs for the balance of 2012 and 2013. We intend to fund our capital needs in future periods through a relatively balanced approach between long-term debt and equity. The Company and Cal Water have a five-year syndicated unsecured revolving line of credit of $100 million and $300 million, respectively for short-term borrowings. As of September 30, 2012, the Company's availability on its new unsecured revolving line of credit was $60.1 million and Cal Water's availability on its new unsecured revolving line of credit was $300 million.

Book Value and Shareholders

Book value per common share was $11.33 at September 30, 2012 compared to $10.76 at December 31, 2011.

There are approximately 2,353 (not in thousands) stockholders of record of our common stock, as of November 1, 2012.

Utility Plant Expenditures

During the nine months ended September 30, 2012, capital expenditures totaled $99.6 million for company-funded and developer-funded projects. The planned 2012 company-funded capital expenditure budget is approximately $120 to $125 million. The actual amount may vary from the budget number due to timing of actual payments related to current year projects and prior year projects. We do not control third-party-funded capital expenditures and therefore are unable to estimate the amount of such projects for 2012.

At September 30, 2012, construction work in progress was $145.7 million compared to $107.0 million at September 30, 2011. 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.

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California's normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington Water service areas receive precipitation in all seasons, with the heaviest amounts during the winter. New Mexico Water's rainfall is heaviest in the summer monsoon season. Hawaii Water receives precipitation throughout the year, with the largest amounts in the winter months. Water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. To date, snowpack water content and rainfall accumulation during the 2011 — 2012 water year is 83% of normal (as of October 1, 2012 per the California Department of Water Resources). Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2012 and beyond. Long-term water supply plans are developed for each of our districts to help assure an adequate water supply under various operating and supply conditions. Some districts have unique challenges in meeting water quality standards, but management believes that supplies will meet current standards using current treatment processes.

CONTRACTUAL OBLIGATIONS

During the nine months ended September 30, 2012, there were no material changes in contractual obligations outside the normal course of business.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Historically, the CPUC's balancing account or offsetable expense procedures allowed for increases in purchased water and purchased power costs to be passed on to consumers. Traditionally, a significant percentage of our net income and cash flows comes from California regulated operations; therefore the CPUC's actions have a significant impact on our business. See Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies - Expense Balancing and Memorandum Accounts" and "Regulatory Matters".

Item 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

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

Our management, with the participation of our CEO and our CFO, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2012. Based on that evaluation, we concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes to Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1.

LEGAL PROCEEDINGS

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

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, 2011, filed with the SEC on February 29, 2012.

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Item 6.

EXHIBIT INDEX

Exhibit Number	Exhibit Title	Incorporated by Reference: Form	File No.	Exhibit No.	Filing Date	Provided Herewith
3.1	Amended & Restated Bylaws	8-K	001-13883	3.1	9/27/2012	
31.1	Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
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.					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X

101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X

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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

November 7, 2012

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

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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

Exhibit 31.1

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

I, Peter C. Nelson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2012, 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: November 7, 2012

By: /s/ Peter C. Nelson
Peter C. Nelson
Chairman of the Board & Chief Executive Officer

Exhibit 31.2

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

I, Thomas F. Smegal, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2012, 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: November 7, 2012

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

Exhibit 32

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this Quarterly Report on Form 10-Q for the period ended September 30, 2012, 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: November 7, 2012	By:	/s/ Peter C. Nelson PETER C. NELSON Chairman of the Board & Chief Executive Officer California Water Service Group
Date: November 7, 2012	By:	/s/ Thomas F. Smegal THOMAS F. SMEGAL Vice President, Chief Financial Officer and Treasurer California Water Service Group