BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of **GOLDEN STATE WATER COMPANY (U 133 W), GOLDEN STATE WATER COMPANY on behalf of its BEAR VALLEY ELECTRIC SERVICE DIVISION (U 913 E) and BEAR VALLEY ELECTRIC SERVICE, INC.** for authority to implement a corporate reorganization plan that will transfer the electric utility operations of Bear Valley Electric Service Division to Bear Valley Electric Service, Inc.	APPLICATION NO. 18-12-__ Filed December 14, 2018

APPLICATION OF GOLDEN STATE WATER COMPANY (U 133 W), GOLDEN STATE WATER COMPANY ON BEHALF OF ITS BEAR VALLEY ELECTRIC SERVICE DIVISION (U 913 E) AND BEAR VALLEY ELECTRIC SERVICE, INC. TO IMPLEMENT A CORPORATE REORGANIZATION PLAN THAT WILL TRANSFER THE ELECTRIC UTILITY OPERATIONS OF BEAR VALLEY ELECTRIC SERVICE DIVISION TO BEAR VALLEY ELECTRIC SERVICE, INC.

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December 14, 2018

Table of Contents

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1. Introduction

By this Application, Golden State Water Company (U 133 W) ("Golden State"), Golden State on behalf of Bear Valley Electric Service Division (U 913 E) ("BVES") and Bear Valley Electric Service, Inc. ("BVES NewCo") (jointly "Applicants") request authority from the California Public Utilities Commission ("Commission") to implement a corporate reorganization plan (the "Plan") that would remove BVES as a division of Golden State and transfer all electric utility operations of BVES to BVES NewCo, a separate stand-alone subsidiary of American States Water Company ("AWR" or the "Company"), and related matters ("Application"). This Application is brought pursuant to Sections 701, 817, 818 and 854 of the California Public Utilities Code ("PU Code"),[1] and the applicable Rules of the Commission's Rules of Practice and Procedure ("Rules"). This Application is based upon and supported by the material facts, points and authorities, and all other information contained herein, the exhibits listed in the above table of contents and attached hereto, and the Prepared Testimony of Keith Switzer ("Prepared Testimony"). The Applicants request, among others, that the Commission:

(1) Find that there will be ratepayer indifference to the effects of the Plan, and, accordingly, authorize the Plan, including all transactions necessary to implement the Plan as described herein, under Section 818;

(2) Find that Section 854 does not apply to the Plan or, in the alternative, find that the Plan is not adverse to the public interest and, accordingly, authorize the Plan under Section 854;

(3) Find that the CPCN held by Golden State in connection with the operation of BVES is transferable to BVES NewCo;

(4) Find that BVES NewCo continues to be exempt from the application of the Energy Affiliate Transaction Rules;

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[1] Unless otherwise specified herein, all statutory references in this Application refer to the PU Code.

(5) Authorize BVES NewCo to issue, sell and deliver by public offering or private placement securities not exceeding $75 million in aggregate offering amount, said securities consisting of, but not limited to, (i) common shares ("New Equity Securities") not exceeding $25 million, and (ii) bonds, debentures, notes, and other evidences of indebtedness not exceeding $50 million ("New Debt Securities") on terms and conditions in accordance with this Application (collectively, the "New Securities");

(6) Authorize BVES NewCo to use the net proceeds to be received from the New Securities for the purposes permitted under Section 817 of the PU Code, including (i) the retirement and discharge of all or a portion of any outstanding short-term borrowings issued for temporary financing of additions to BVES NewCo's utility plant, (ii) the support of BVES NewCo for its capital investment in infrastructure and safety measures, and (iii) the support of BVES NewCo's on-going operational needs;

(7) Authorize BVES NewCo, under Section 823(c) of the PU Code, to make short-term borrowings in excess of 5% of the par value of the company's other securities then-outstanding; and

(8) Grant BVES NewCo a waiver from the requirements of Section 818 of the PU Code and the holding company rules issued on June 18, 1998 in Decision 98-06-068 as it applies only to BVES NewCo's short-term borrowings under its revolving credit arrangements, thereby allowing short-term borrowings under these arrangements be outstanding for a maximum period of 24 consecutive months.

In accordance with Rule 1.7(b), the Applicants are not filing or tendering the Prepared Testimony to the Docket Office, but are serving the Prepared Testimony on the Chief Administrative Law Judge concurrently with the filing of this Application. The Applicants are also serving the Prepared Testimony and this Application on the potentially interested parties identified in the attached Certificate of Service. Anyone desiring a copy of the Prepared Testimony may obtain one by sending an electronic mail message to Audrey Jackson at afjackson@gswater.com.

2. Background

AWR is the parent company of Golden State and American States Utility Services, Inc. ("ASUS") and ASUS' subsidiaries. AWR has three reportable segments: water, electric and contracted services. Within the segments, AWR has two principal business units, CPUC-regulated utility operations, conducted through Golden State, and contracted services, conducted through ASUS and its subsidiaries. Golden State is a public utility engaged principally in the purchase, production, distribution and sale of water in 10 counties in the State of California. Golden State is regulated by the Commission. It was incorporated as a California corporation named Southern California Water Company ("SCWC") on December 31, 1929 and formally renamed Golden State Water Company on September 30, 2005. Golden State also distributes electricity in several San Bernardino County mountain communities in California through its BVES division. Golden State serves approximately 260,000 water customers and approximately 24,000 electric customers. The Commission separately sets rates for Golden State's water customers and BVES' electric customers through its Water Division and Electric Division, respectively.

The Applicants seek to implement a corporate reorganization plan that would remove BVES as a division of Golden State and transfer all electric utility operations of BVES to BVES NewCo, which would operate as a separate stand-alone subsidiary of AWR. As discussed in detail below and in the Prepared Testimony, the Plan would have minimal or no impact on Golden State's or BVES' day-to-day operations, the quality of service provided to their respective water or electric utility customers, or the rates charged to water or electric utility customers. But in the long term, the Applicants anticipate that the Plan would improve both water and electric utility operations. Both Golden State and BVES (then as BVES NewCo) would remain subject to regulation by the Commission after implementation of the Plan.

Please refer to the "Reorganization Rationale and Benefits" section of the Prepared Testimony for additional information regarding the benefits of the Plan.

3. Description of Transaction

At the point the Plan would be fully implemented, BVES NewCo, a newly formed California corporation, would hold the BVES electric utility assets; Golden State would hold the water utility assets;[2] and AWR would hold 100% of the outstanding shares of both Golden State and BVES NewCo.

[2] Golden State would retain "General Office" assets and would continue to provide specified services to BVES NewCo in accordance with the common cost allocation adopted by the Commission. Please see Section 5.12 of the Contribution and Spin-Off Agreement, attached as Exhibit B.

The Plan reflects a transaction form that is treated as a tax-free reorganization pursuant to the Internal Revenue Code and the California Revenue and Tax Code, which applied in this instance, would not trigger any income tax consequences to AWR, Golden State or any other member of the AWR consolidated group. In the income tax parlance, this particular transaction form is referred to as a “Spin” transaction.

Upon the receipt of all necessary approvals and the satisfaction of the other conditions required for the consummation of the Spin transaction, Golden State would contribute to BVES NewCo the electric utility assets associated with BVES’ current operations in exchange for BVES NewCo stock. Immediately thereafter, Golden State would distribute this stock to AWR. At this point, both Golden State and BVES would be first-tier subsidiaries of AWR. Attached hereto as **Exhibit A** is a diagram of the planned steps of reorganization. **Exhibits A-1 and A-2** then illustrate the current corporate structure and proposed corporate structure after implementation of the Plan, respectively.

The Plan does not contemplate any of Golden State’s debt to be assumed by BVES NewCo. As discussed in the request for financing authorization set forth in Section 8 of this Application, subsequent to the implementation of the Plan, BVES NewCo would issue debt financing in an amount that would result in a capital structure for BVES NewCo that would be consistent with the most recently authorized capital structure.

Attached hereto as **Exhibit B** is the executed Contribution and Spin-off Agreement which sets forth the Plan's terms and conditions agreed among Golden State, BVES NewCo and AWR. The Contribution and Spin transaction will not occur unless the conditions to closing set forth in Section 6 of the Contribution and Spin-off Agreement, including approval by the Commission, have been satisfied.

4. Commission Authority

4.1. Public Utilities Code § 701

PU Code Section 701 vests in the Commission the authority to supervise and regulate Golden State's utility activity and provides to the Commission the authority to exercise regulatory oversight with regard to the Plan. The Commission has previously relied on Section 701 to determine if a utility's proposed reorganization is, on balance, in the public interest.[3] The Plan is in the best interests of both Golden State's customers and the AWR shareholders. The Plan will result in a structure that furthers the separation between Golden State's water and electricity functions without altering the Commission's ability to regulate effectively both water and electric utility operations, and without any change in the safe, reliable water and electricity that each entity provides to its customers. The many benefits of the Plan are described on pages 9-10 of this Application and in the "Reorganization Rationale and Benefits" section of the Prepared Testimony.

[3] See, e.g., In Re: San Diego Gas & Electric Holding Company Application, D.95-05-021 (Interim Decision) and D.95-12-018; In Re: Pacific Gas & Electric Holding Company Application, D.96-11-017 (Interim Decision); In Re: Southwest Gas Corporation Holding Company Application, D.16-01-037; and D.99-04-068.

4.2. Public Utilities Code § 818

Under PU Code Section 818, a public utility requires Commission approval in order to issue stocks and stock certificates, or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months after the date of issuance.[4] As described in Section 3 above, to effect the Plan, BVES NewCo would issue common stock at the time that it becomes a public utility; Golden State would contribute the electric utility assets to BVES NewCo in exchange for 100% of the common stock of BVES NewCo, and Golden State would then transfer the stock of BVES NewCo to Golden State's parent company, AWR, such that AWR would hold 100% of the shares of both Golden State and BVES NewCo. In addition, as described below in Section 8 of this Application, BVES NewCo is requesting authority to issue debt and equity in an amount not to exceed $75 million. These issuances of equity and debt would result in BVES NewCo maintaining the same capital structure that Golden State, and BVES as a division of Golden State, currently maintain: 57% equity and 43% debt.

Because the request to allow BVES NewCo to issue debt and equity securities arises from the reorganization of Golden State's electric division into a wholly-owned subsidiary of Golden State's parent, AWR, this request for financing authority is

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[4] West's Ann. Cal. Pub. Util. Code § 818. Section 8.5 of this Application includes a request by BVES NewCo for a waiver from the provisions of PU Code Section 818 that would require repayment of short term debt within 12 months of issuance, which would apply to short-term borrowings made under revolving credit arrangements.

analogous to cases in which the Commission has reviewed financing requests in the context of holding company reorganizations. In both cases, equity is only being issued to affiliated entities in the same corporate family. In cases of holding company reorganizations, the Commission has determined that the standard for granting authorization under Section 818 is a finding of "ratepayer indifference to the effects of the holding company reorganization."[5] For the Commission to find such ratepayer indifference, the utility need only demonstrate that "(1) a valid business purpose exists, and (2) the reorganization may be accomplished and future operations conducted pursuant to conditions that will be adequate to protect the public interest."[6] The Plan clearly satisfies both of these requirements.

As described in the "Reorganization Rationale and Benefits" section of the Prepared Testimony, there are two fundamental business purposes underlying the Plan. The first purpose is to separate operational and financial risk between the electric and water businesses. Specifically, implementation of the Plan would (i) increase financial separation, such that any adverse operational or financial consequences associated with BVES NewCo's electric business should not impair Golden State's well-being, and, conversely, any adverse operational or financial consequences associated with Golden State's water business should not impair BVES NewCo's well-being, (ii) result in a better alignment of industry specific risks for the electric and water businesses with their respective customers, and (iii) eliminate the risk of creditors having access to both the

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[5] Decision 96-11-017, 1996 WL 752962 (Cal. P.U.C.) at *6.

[6] Id. See also, Decision 16-01-037 at 9.

water and electric business assets in a situation in which only one of these businesses faces financial stress.

The second purpose is to ensure that the appropriate focus, both internally and externally, is afforded to the water and electric businesses at all times. In this regard, although the management and employees that currently operate BVES as an electric division of Golden State would remain in their respective roles subsequent to the separation, implementation of the Plan would result in a separate board of directors for each company. The separate boards would provide increased focus on strategy and goal setting for each company and thereby improve operations for each business. Another element of that separate focus is that there would be greater flexibility in financing, because the water and electric utilities would be able to access capital markets separately. For all of these reasons, the Applicants request that the Commission find that valid business purposes exist for the Plan.

With regard to protection of the public interest, the Commission has previously examined whether (i) the proposed transaction would involve corporate rebranding or the relocation or replacement of current management, (ii) the utility's customers would experience the same level of service from the same utility both before and after the reorganization, (iii) ratepayers would continue to pay the same Commission-authorized rates, (iv) the Commission would continue to regulate the utility in the same manner after the proposed reorganization, and (v) the utility would remain in compliance with the Affiliate Transaction Rules.[7]

The public interest assessment set forth in the "Commission Policy/Commission Precedent" section of the Prepared Testimony demonstrates that, based on these same considerations, the Plan and the future operations of BVES NewCo would be conducted pursuant to conditions that are adequate to protect the public interest. Because BVES NewCo retains the name "Bear Valley Electric Service" and simply adds ", Inc." to the end of the electric-service provider's name, the Plan does not involve any rebranding of significance. None of the management or employees of the electric utility would be relocated or replaced as a result of the Plan, and the increased focus on the energy business resulting from the separate board of directors would only improve the level of service that the current management and employees provide. Moreover, the Applicants do not anticipate any material increase in rates as a result of the Plan, and both the water and electric utilities would continue to be regulated by the Commission. Therefore, the Applicants request that the Commission find that the Plan and future operations of BVES NewCo will be conducted pursuant to conditions that will be adequate to protect the public interest.

Given that (1) a valid business purpose exists for the Plan, and (2) the Plan may be accomplished and BVES NewCo's future operations conducted pursuant to conditions that will be adequate to protect the public interest, the Applicants request that the

[7] Decision 16-01-037 at 10.

Commission find that there will be ratepayer indifference to the effects of the Plan, and, accordingly, authorize the Plan under Section 818.

4.3. Public Utilities Code § 851

PU Code Section 851 states that a public utility shall not sell, lease, assign, mortgage or otherwise dispose of or encumber property without first securing an order from the Commission authorizing the transaction.[8] In accordance with Commission precedent, no utility property would be sold, leased, mortgaged, or otherwise disposed of or encumbered under the Plan within the meaning of Section 851, because all existing electric assets used by BVES to serve its customers today would continue to be used to serve the same BVES customers after implementation of the Plan. The legal entity that is the owner of the electric utility would have changed (from Golden State to BVES NewCo), but the electric utility would retain all of its assets.[9]

The Commission's reasoning in Decision 10-10-017 supports that Section 851 is inapplicable to the Plan. In that case, the Commission authorized the transfer to California Pacific Electric Company, LLC ("CalPeco") of the ownership and operation of Sierra Pacific Power Company's ("Sierra") California electric service territory, including all distribution assets and Sierra's 12 MW diesel-fired generator located near Lake Tahoe. The joint application filed by CalPeco and Sierra described the transaction as

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[8] West's Ann. Cal. Pub. Util. Code § 851.

[9] The Applicants note that BVES has a separate "U" number from Golden State and is, therefore, its own utility. (BVES is U 913 E and Golden State is U 133 W.)

"functionally the sale of Sierra's entire Commission-jurisdictional utility."[10] Because all of the existing utility assets located in California were to continue to be owned by the California utility, the Commission concluded that it was, in essence, the California utility itself that was being sold.[11] As such, the Commission determined "that the proposed transfer from Sierra to CalPeco should be reviewed under § 854, which generally governs mergers and similar transfers of control, rather than § 851, which typically governs sales of assets."[12] Similarly, Section 851 is inapplicable to the Plan because all of the assets used and useful for providing electrical service to BVES' customers would remain assets of the electric utility as owned and operated by BVES NewCo, and all of the assets used and useful for providing water service to Golden State's customers would remain assets of Golden State. The Applicants therefore request that the Commission find that the Plan is not a transaction subject to review under Section 851.

4.4. Public Utilities Code § 854

PU Code Section 854(a) provides that no person or corporation shall merge, acquire, or directly or indirectly control a public utility organized and doing business in California

[10] Decision 10-10-017 at 9 (citing Application 09-10-028 at 19).

[11] Sierra and CalPeco had structured the transaction as a sale of California-jurisdictional assets, rather than a merger or sale of stock, because the California utility was not organized as a separate legal entity from Sierra (see Decision 10-10-017 at 10). Similarly, BVES, as an electric division of Golden State, has not been a separate legal entity from Golden State; BVES, as a stand-alone electric utility, would become a legal entity separate from Golden State pursuant to the Plan.

[12] Decision 10-10-017 at 59, Conclusion of Law #1 (specifically determining that the transfer was properly reviewed under Section 854(a)). See also Decision 93-11-011 (Interim Order 93-02-028), 1993 WL 614609 (Cal. P.U.C.) at *11-12 (explaining that approval would not be required under Section 851 for the spin-off of Pacific Telesis Group into two separate corporations, so long as the proposed transaction would not involve the transfer out of the California utilities of any property necessary or useful to utility operations).

without first securing authorization from the Commission, and that the Commission may establish what constitute merger, acquisition, or control activities that are subject to this statute.[13] The Commission examines whether proposed acquisition activities should be evaluated under Section 854 on a case-by-case basis.[14] In the context of certain holding company reorganizations, the Commission has concluded that authorization of the Commission is not required under Section 854, because after the reorganization, ownership and control of the utility would continue to be retained by the same public utility shareholders.[15]

With regard to Section 854 review, the proposed transfer of the electric utility operations and associated assets from Golden State to BVES NewCo is similar to a holding company reorganization. Specifically, upon consummation of the Plan, both Golden State and BVES NewCo would be direct, wholly-owned subsidiaries of Golden State's parent company, AWR. Accordingly, the same public utility shareholders would retain ownership and control of the electric utility before and after implementation of the Plan. Therefore, it would be reasonable for the Commission to conclude that the Plan does not involve an actual change of control, such that the Commission need not evaluate the Plan under Section 854.

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[13] West's Ann. Cal. Pub. Util. Code § 854.

[14] Decision 96-11-017, 1996 WL 752962 (Cal. P.U.C.) at *4.

[15] Decision 16-01-037 at 11. See also, Decision 95-05-021, 1995 WL 335084 (Cal. P.U.C.) at *2 (stating: "The acquisition involved in SDG&E's proposal should not be subject to PU Code § 854 because we have other bases of jurisdiction than PU Code § 854 to assure that the transaction is in the public interest and the change in legal control (ownership by existing shareholders to ownership by Parent) is not a change in actual control").

In the event that the Commission determines that the Plan warrants evaluation under Section 854, subsections (b) and (c), which require specific findings and analysis of particular criteria, would nonetheless be inapplicable, because there is no utility or other entity involved in the Plan that meets the revenue thresholds that trigger review under these subsections. Specifically, Section 854(b) applies to a merger, acquisition or control "where any of the utilities that are parties to the proposed transaction has gross annual California revenues exceeding five hundred million dollars ($500,000,000),"[16] and Section 854(c) applies to a merger, acquisition or control "where any of the entities that are parties to the proposed transaction has gross annual California revenues exceeding five hundred million dollars ($500,000,000)."[17] The only entities party to the transaction contemplated by the Plan are Golden State as the transferor of the electric utility, BVES NewCo as the transferee of the electric utility, and, arguably, AWR, as the ultimate holder of the shares in BVES NewCo.[18] None of these entities has gross annual California revenues exceeding $500,000,000. Subsections (e), (f), (g) and (h) of Section

[16] West's Ann. Cal. Pub. Util. Code § 854(b).

[17] West's Ann. Cal. Pub. Util. Code § 854(c).

[18] Section 854(f) specifically provides: "In determining whether an acquiring utility has gross annual revenues exceeding the amount specified in subdivisions (b) and (c), the revenues of that utility's affiliates shall not be considered unless the affiliate was utilized for the purpose of effecting the merger, acquisition, or control", and the Commission has previously considered only the revenues of the transferring and acquiring entity when determining whether the $500,000,000 threshold has been triggered under either subsection. See Decision 01-06-007, 2001 WL 902193 (Cal.P.U.C.) at *8 (considering only the revenues of the transferor and transferee, and not either entity's parent or other affiliates, when determining whether the $500,000,000 threshold had been met). Accordingly, the Applicants believe that the gross annual California revenues of AWR should not be considered for the purpose of determining whether Section 854(b) or (c) are applicable. Because AWR's gross annual California revenues are below the $500,000,000 threshold, the Commission need not address this issue.

854 all relate to the Commission's evaluation under subsection (b) or subsections (b) and (c); accordingly, those subsections are also inapplicable. The Commission would be required to evaluate the transfer under subsection (d), which requires the Commission to consider "reasonable options to the proposal recommended by other parties, including no new merger, acquisition, or control, to determine whether comparable short-term and long-term economic savings can be achieved through other means while avoiding the possible adverse consequences of the proposal."[19]

Moreover, the Commission has explained that to approve a transfer under Section 854(a), the Commission must ensure that the transfer is not adverse to the public interest, which means that the Commission "must be able to evaluate evidence on the important impacts of the transfer—whatever they may be—and find no harm to ratepayers."[20] In past decisions, some of the criteria identified by the Commission as relevant to a public interest assessment mirror the criteria set forth in Sections 854(b) and (c).[21] Those criteria have included financial condition of the utility, service quality, management quality, affected utility employees, and affect upon the State of California and local communities, Commission jurisdiction, and competition.[22] As discussed in the "Commission Policy/Commission Precedent" section of the Prepared Testimony, should

[19] West's Ann. Cal. Pub. Util. Code § 854(d).

[20] Decision 10-10-017 at Conclusion of Law #3(a).

[21] Decision 10-10-017 at Conclusion of Law #3(b).

[22] See Decision 10-10-017 at 13-14 (citing Decision 06-02-033).

the Commission conclude that review under Section 854 is warranted, all of these criteria have been satisfied.

In sum, the Commission has discretion to determine whether the Plan is subject to approval under Section 854. If the Commission concludes that Section 854 is applicable, the Applicants request that the Commission find that the Plan is not adverse to the public interest and, accordingly, authorize the Plan.

4.4.1. Public Utilities Code § 854.2

The California legislature recently enacted PU Code Section 854.2, which governs the retention of employees in the event of any change of control of an electric corporation or gas corporation, its parent company or its holding company.[23] As set forth in the "Commission Policy/ Commission Precedent" section of the Prepared Testimony, no employees of BVES would be terminated, relocated or replaced in connection with or as a result of the Plan. Accordingly, Section 854.2 is not implicated by the Plan.

5. Certificate of Public Convenience and Necessity (CPCN)

BVES operates as an electric utility under a CPCN granted to Golden State on November 30, 1971, when the company was formerly known as SCWC.[24] The CPCN was issued to enable the electric utility to exercise the rights and privileges of a franchise (the "Franchise") granted by the County of San Bernardino (the "County") by

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[23] See Sen. B. 901, 2017-2018 Reg. Sess. (Cal. 2018).

[24] See Decision 79424.

Ordinance No. 1642.[25] Golden State is seeking the written consent of the County to assign the Franchise to BVES NewCo. Under Commission precedent, a CPCN is a transferable asset, but in cases in which the transferee does not already possess a CPCN, the Commission may analyze whether such transferee meets the requirements for obtaining the CPCN.[26] As described in the "Other Matters To Be Resolved" section of the Prepared Testimony, the Plan satisfies all of the requirements for the issuance of a CPCN to BVES NewCo, including financial and technical requirements, and the criteria set forth in Section 1002(a) of the Public Utilities Code. Accordingly, the Applicants request that the Commission approve the transfer of the CPCN for electric service currently held by BVES as a division of Golden State to BVES NewCo.

6. California Affiliate Transaction Rules

The Commission has adopted different Affiliate Transaction Rules ("ATRs") for the electric utilities and the water utilities. The Commission adopted ATRs for the electric utilities (the "Energy ATRs") in D.97-12-088.[27] Under Rule II.B thereof, the Energy ATRs apply to an electric utility's transactions with affiliates "engaging in the provision of a product that uses electricity or the provision of services that relate to the use of electricity."[28] Ordering Paragraph 2 of D.97-12-088 provided the electric utilities,

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[25] Ordinance No. 1642, approved by the County of San Bernardino Board of Supervisors on May 24, 1971.

[26] D.14-01-026 at 3-6.

[27] These rules were subsequently modified by the Commission in D.98-08-035 for the larger utilities (San Diego Gas & Electric Company, Southern California Gas Company and Southern California Edison Company) but the modification did not impact the smaller utilities, including BVES.

[28] D.97-12-088 at 2, (Rule II.B affiliates).

including Golden State (when it was formerly known as SCWC), the opportunity to seek exemption from the application of the Energy ATRs by advice letter, if the electric utility did not have an affiliate addressed by Rule II.B. In Resolution E-3569, the Commission approved SCWC Advice Letter 170, which requested that SCWC be exempt from the Energy ATRs and from filing a compliance plan, because SCWC did not have any affiliates which provided services as defined by Rule II.B.[29]

As described further in the "Other Matters To Be Resolved" section of the Prepared Testimony, subsequent to implementation of the Plan, BVES would continue to have no affiliates engaged in the provision of products or services related to the use of electricity, as described in Rule II.B of the Energy ATRs. As such, the Applicants request that, subsequent to the implementation of the Plan, BVES continue to be exempt from the Energy ATRs in accordance with the wavier granted by Resolution E-3569. BVES NewCo acknowledges its continuing duty to provide the Commission and all interested parties notice (via a supplemental California Affiliate Transaction Rules Compliance Plan filing) of any material change in the business activities of its affiliates that would alter the status of any limited exemptions granted herein.

By Decision 10-10-019, the Commission adopted separate "standard rules for all Class A and B water and sewer utilities regarding affiliate transactions and the use of regulated assets and personnel for non-tariffed utility products and services"[30] (the

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[29] See Resolution E-3569, appended to the Prepared Testimony as Appendix B.

[30] D.10-10-019 at 2.

"Water ATRs"), which were subsequently modified by Decisions 11-10-034 and 12-01-042. Golden State (including BVES) is subject to the Water ATRs. Rule I.B of the Water ATRs provides: "Transactions between a Commission-regulated utility and an affiliated utility regulated by a state regulatory commission (whether the utility is located in California or elsewhere) are exempt from these Rules, except for provisions of Rule IV.B [governing allocation of common costs] and Rule X [governing the provision of Non-tariffed Products and Services ("NTP&S")]." Currently, Golden State and BVES are regulated by this Commission. After implementation of the Plan, Golden State and BVES NewCo would both be Commission-regulated utilities. Accordingly, the Water ATRs would continue to be applicable only to transactions involving allocation of common costs[31] and NTP&S. Any other transactions between Golden State and BVES NewCo would remain exempt from the Water ATRs.

The Commission would have the same level of oversight for BVES NewCo, as a regulated entity, as it historically has had over BVES as a division of Golden State. Upon the incorporation of BVES NewCo, Golden State immediately notified the Commission of its creation via a letter. Golden State plans to post this Application on its website as notification of BVES NewCo's creation, pursuant to Rule VIII.D of the Water ATRs.[32] And, within 60 days of the date that the electric utility operations are

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[31] The allocation of Common Costs will continue to be reviewed and set by the Commission as part of Golden State's General Rate Case proceedings.

[32] Rule VIII.D requires: "Upon the creation of a new affiliate, the utility shall immediately notify the Commission of its creation, as well as posting notice of this event on its web site." Golden State understands that filing this Application requesting approval of the Plan supplants the need for a separate filing as described in Rule VIII.D, as each component required to be included in that filing is included within this Application. (That requirement provides: "No later than 60 days

transferred to BVES NewCo, Golden State shall submit a revised Affiliate Transaction Rule Compliance Plan that reflects the new corporate structure and demonstrates Golden State's plan for compliance with the provisions of Rule IV.B and Rule X of the Water ATRs as they relate to transactions between Golden State and BVES NewCo.

7. CEQA Compliance

As described further in the "Other Matters To Be Resolved" section of the Prepared Testimony, the Plan does not have any potential to result in a "significant effect on the environment." Thus, it is not subject to the California Environmental Quality Act (Title 14 California Code of Regulations §15061(b)(3)) ("CEQA"). Accordingly, the Applicants request that the Commission find that the Plan is not subject to review under CEQA.

8. Financing Request

BVES NewCo issued 10 shares of its common stock to Golden State for $100 in cash at the time of its incorporation. As described in Section 3 above, upon approval by the Commission and completion of other regulatory requirements, and to effect the reorganization plan, BVES NewCo will issue an additional 100 shares of common stock

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after the creation of this affiliate, the utility shall file an information-only filing, as provided for in Rule 6.1 of General Order 96-B, with the Director of the Commission's Division of Water and Audits, with service on the Director of the Division of Ratepayer Advocates. The advice letter shall state the affiliate's purpose or activities and whether the utility claims these Rules are applicable to the new affiliate, and shall include a demonstration to the Commission that there are adequate procedures in place that will assure compliance with these Rules. The advice letter may include a request, including supporting explanation, that the affiliate transaction rules not be applied to the new affiliate. If the utility requests that the affiliate transaction rules not be applied to the new affiliate, in lieu of an information-only filing, the utility shall file a Tier 2 advice letter making such a request, including an explanation of why these Rules should not apply to the new affiliate.")

of BVES NewCo to Golden State in consideration for Golden State's contribution of the electric utility assets of its BVES division ("BVES Division") to BVES NewCo. Golden State will then distribute the common stock of BVES NewCo to its parent, AWR, which will result in AWR holding 100% of the shares of BVES NewCo.

Attached hereto as **Exhibit C** is a Presentation of Pro Forma Balance Sheets as of September 30, 2018, showing the assets, liabilities and total capitalization of the consolidated Golden State entity and an adjustment to remove the assets and liabilities of Golden State's regulated water services, to arrive at BVES Division's assets and liabilities for regulated electric service operations. At the time that the reorganization plan is implemented, all of Golden State's outstanding short and long-term debt securities will remain with Golden State. Accordingly, in **Exhibit C**, none of the intercompany borrowing from AWR nor the long-term debt at Golden State has been allocated to BVES Division. **Exhibit C-1** then illustrates the activities that will be undertaken, subsequent to approval of this Application by the Commission, to arrive at the projected capitalization and long-term debt balances of BVES NewCo that accords with Golden State's and BVES Division's most recently authorized capital structure approved in Decision No.18-03-035 by the Commission in the cost of capital proceeding for Golden State. The same capital structure was included in the joint settlement with the CPUC's Public Advocates Office filed by Golden State, on behalf of and in connection with the general rate case application for its BVES Division.

In addition to the initial stock issuances of 110 shares described above, BVES NewCo is requesting authority to issue, when needed, additional equity and its own debt securities not to exceed $75 million in the aggregate at this time for its on-going operations. The purpose of this request is to be able to issue new equity and debt at the BVES NewCo stand-alone entity (i) first to achieve and then to maintain a capital structure of 57% equity and 43% debt, which is currently authorized by the Commission for Golden State, and (ii) thereafter to allow for a viable funding mechanism to obtain the necessary capital to support BVES NewCo's on-going operations, allow its continuing focus on and investment in safety measures, upgrade or replacement of its aging infrastructure, and ensure reliable electricity supply to customers.

With regard to clause (i) in the foregoing paragraph, shortly after the Plan is approved and the electric utility assets of BVES Division are contributed to BVES NewCo by Golden State, BVES NewCo will need to issue long-term debt and reduce its equity capitalization through a distribution to AWR, in order to achieve the capital structure currently authorized by the Commission. A presentation of Pro Forma Indebtedness and Capitalization as of September 30, 2018, and Initial Formation and Post Activity through December 31, 2019 is attached hereto as **Exhibit C-1**. To maintain the authorized capital structure in subsequent years, BVES NewCo expects to issue additional debt and equity. A Statement of Projected Capitalization Ratios and Schedule of Security Issuances for the 5-Years 2019 - 2023 is attached hereto as **Exhibit D**.

Pursuant to the Commission's statutory authority discussed above in Section 4 of this Application and Rule 3.5 of the Rules, BVES NewCo requests that the Commission:

(1) Authorize BVES NewCo to issue, sell and deliver by public offering or private placement securities not exceeding $75 million in aggregate offering amount, said securities consisting of, but not limited to, (i) common shares

("New Equity Securities") not exceeding $25 million, and (ii) bonds, debentures, notes, and other evidences of indebtedness not exceeding $50 million ("New Debt Securities") on terms and conditions in accordance with this Application (collectively, the "New Securities");

(2) Authorize BVES NewCo to use the net proceeds to be received from the New Securities for the purposes permitted under Section 817 of the PU Code, including (i) the retirement and discharge of all or a portion of any outstanding short-term borrowings issued for temporary financing of additions to BVES NewCo's utility plant, (ii) the support of BVES NewCo for its capital investment in infrastructure and safety measures, and (iii) the support of BVES NewCo's on-going operational needs;

(3) Authorize BVES NewCo to execute and deliver one or more indentures, supplemental indentures or board resolutions and/or loan, credit or note purchase agreements or other agreements;

(4) Authorize BVES NewCo, under Section 823(c) of the PU Code, to make short-term borrowings in excess of 5% of the par value of the company's other securities then-outstanding;

(5) Grant BVES NewCo a waiver from the requirements of Section 818 of the PU Code and the holding company rules issued on June 18, 1998 in Decision 98-06-068 as it applies only to BVES NewCo's short-term borrowings under its revolving credit arrangements. The waiver would authorize BVES NewCo to borrow under revolving credit arrangements and would allow the period of time that its short-term borrowings under these arrangements be outstanding for a maximum period of 24 consecutive months as opposed to the statutory and holding company maximum period of twelve months;

(6) In connection with the waiver allowing BVES' short-term borrowings under revolving credit arrangements to remain outstanding for 24 consecutive months, specify that short-term borrowings made under a revolving credit facility that allows such borrowings to remain outstanding for up to 24 consecutive months qualify as short-term debt under Section 823(b) of the PU Code; and

(7) Specify that the authority granted pursuant to this Application shall become effective upon the payment of fees prescribed by Sections 1904(b) and 1904.1 of the PU Code.

As reflected in **Exhibit F**, which illustrates BVES NewCo's Projected Statements of Cash Flow for the 5-Years 2019 – 2023, BVES NewCo anticipates substantial cash requirements over the next several years for (i) upgrading its aging infrastructure, including improving system safety and reliability specifically aimed at reducing the possibility of wildfires, (ii) investing in various capital projects including those to meet the renewable-energy requirements set by State of California and the Commission, as well as transportation electrification capital projects to meet the clean energy, clean air, and greenhouse gas reduction goals for California by 2030 and beyond, (iii) refinancing short-term borrowings, and (iv) increasing operational flexibility.

With regards to infrastructure investments, as summarized in **Exhibit E**, BVES NewCo anticipates capital spending of approximately $65 million over the next five years. The anticipated capital projects are consistent with a settlement agreement reached in a recent general rate case application for BVES. Golden State had filed a general rate case application in May 2017 for its electric division to determine new rates for the years 2018 – 2021. On November 28, 2018, Golden State, on behalf of its BVES Division, filed a joint settlement with the CPUC's Public Advocates Office, which resolves all the issues in the electric general rate case application and among other things (i) includes the parties' agreement to extend the rate cycle by one year and, thereby, to set new rates over five years beginning in 2018 through 2022, and (ii) authorizes BVES to construct all the specific capital projects and the blanket plant projects requested in its application (for 2018 – 2021) and increased for the addition of a fifth year in the rate cycle (2022). The investments in capital infrastructure over the five-year rate cycle (2018 - 2022) are dedicated to improving system safety and reliability. For 2023, it is assumed that similar recurring capital projects will be required. The amounts set forth in **Exhibit E** reflect the joint settlement for years 2019-2022 and this assumption for 2023, as well as capital investments needed to meet the renewable-energy requirements. In order to support its operations and its capital-intensive program, BVES NewCo requests authority to issue various kinds of New Securities; the types of New Securities that may be issued and their features are described in Sections 8.2 and 8.3, below.

8.1. Use of Proceeds from Sale of Securities

BVES NewCo would use the proceeds from the sale of the New Securities, after payment and discharge of obligations incurred for expenses incident to their issue and sale, to discharge all or a portion of BVES NewCo's then existing short-term borrowings and, to the extent that there are proceeds remaining, for other purposes permitted by Section 817 of the PU Code, including to provide for the acquisition of property and for the construction, completion, extension or improvement of BVES NewCo's facilities, and for other projected cash requirements during the calendar years 2019 to 2023, as noted in BVES NewCo's Projected Statements of Cash Flow for the 5-Years 2019-2023, attached as **Exhibit F**.

8.2. Description of the New Equity Securities

BVES NewCo hereby seeks authority to issue and sell the New Equity Securities by the issuance of common shares, as described below.

<u>Common shares</u>. BVES NewCo, by this Application, seeks authority to issue, sell and deliver from time to time common shares to its parent, which will be AWR, for capital expenditures and other purposes permitted by Section 817 of the PU Code.

8.3. Description of the New Debt Securities

BVES NewCo seeks authority to issue the New Debt Securities so that it may expeditiously secure indebtedness at the lowest possible cost and with the most favorable terms that are consistent with the capital requirements of BVES NewCo. The fluctuating conditions of the financial market do not allow BVES NewCo to ascertain which of its New Debt Securities (or combination thereof) would provide the most favorable terms to BVES NewCo at this time. BVES NewCo intends to determine the precise characteristics and methods associated with the issuance of each type of New Debt Security at the time of sale with due regard for existing and anticipated financial market conditions. Such characteristics and methods include, among others, the amount, price, terms and conditions, and interest rate (which may be, among others, fixed, adjustable, variable or set by auction or remarketing). The following describes the types of the New Debt Securities that may be issued and the types of market terms commonly associated with each type of New Debt Security.

8.3.1. Medium-term Notes

It is anticipated that medium-term notes would be sold for cash at an interest rate to be determined by BVES NewCo's board of directors, or a committee thereof, in light of market conditions at the time of sale. The medium-term notes would be unsecured and may be issued either by public offering or by private placement with institutions and other investors. The interest rate may be fixed, adjustable or variable or set by auction or remarketing or other rate setting procedures. Notes sold at a discount may bear no interest or interest at a rate below the market rate at the time of issuance. It is anticipated that medium-term notes would mature anytime from nine months to 30 years after issuance. At the option of BVES NewCo, the medium-term notes may be: (i) non-redeemable, (ii) not redeemable for a specified period or until the occurrence of a specified event, or (iii) redeemable at the option of the holder in specified circumstances.

The redemption features of the medium-term notes may provide for redemption without a premium or for redemption either (A) at redemption prices ranging from (i) an amount equal to the principal amount plus a premium, expressed as a percentage of the principal amount, commencing with the 12-month period beginning with the date of the medium-term notes, or at some later date, and decreasing each 12 months thereafter to (ii) 100% of the principal amount of the medium-term notes by the year of maturity, (B) under some other type of "make-whole" formula or (C) utilizing a combination of both methods, plus, in each case, accrued interest.

Medium-term notes may also be issued by private placement with similar features. Through a negotiated process, the agreement with a lender or investor would set forth, among other things, the principal amount, the interest rate and the maturity date of that series of medium-term notes and the redemption features and other features, if any, of the medium-term notes.

BVES NewCo hereby requests authorization to execute and deliver, as necessary, supplemental indentures, board resolutions, or negotiated agreements in the form that BVES NewCo believes appropriate and that reflects the terms of the medium-term notes.

The medium-term notes may be sold on a firm commitment or agency basis. When the notes are sold on a firm commitment basis, the underwriting investment banker would buy the entire issue at a specified price from BVES NewCo, relieving BVES NewCo from the risk and responsibility of selling and distributing the notes. Subsequently the underwriter would sell the issue to other investors. When the notes are sold on an agency basis, the investment banker would act as a broker for BVES NewCo and would use its best efforts to sell the issue at a stipulated price; BVES NewCo would bear the risk if the entire issuer were not sold.

8.3.2. Loans

BVES NewCo may obtain loans with a maturity of greater than one (1) year, pursuant to term loans with banks, insurance companies, or other financial institutions on a negotiated basis.

Loans, if obtained, would be obtained pursuant to credit, loan or note purchase agreements. Such agreements would set forth, among other things, the principal amount, the interest rate, the maturity of the debt and whether amounts repaid could be re-borrowed. The loans may also provide for reimbursement of amounts drawn under letters of credit issued to BVES NewCo by a bank or other financial institution or financial guaranty insurance issued by an insurance company. BVES NewCo hereby requests authorization to execute and deliver, as necessary, credit, loan or note purchase agreements, reimbursement obligations under letters of credit or financial guaranty insurance or other security or guarantees as necessary, in the form, which BVES NewCo believes appropriate and which reflect the terms of the loans.

8.3.3. Tax-Exempt Debt

BVES NewCo anticipates that, from time to time, the cost of the New Debt Securities may be reduced by indirectly obtaining funds through securities issued by one or more political subdivisions (the "Authority") and unconditionally guaranteeing, or otherwise securing, such obligations of the Authority in respect of such Authority's issuance of tax-exempt debt in connection with the financing of a portion of BVES NewCo's capital expenditures. BVES NewCo anticipates the potential use of this tax-exempt option whenever its facilities qualify for tax-exempt financing under Federal or State law, and to the extent such funds for tax-exempt financing are available. In order to obtain the benefits of tax-exempt financing, BVES NewCo would engage in one or more financing arrangements with the Authority. Although actual arrangements may vary, such financing arrangements are frequently structured substantially as follows:

(1) The Authority would issue and sell one or more series of its bonds, notes, debentures or other securities (the "Authority Securities") to a group of underwriters who would ultimately market such Authority Securities to investors;

(2) Concurrent with the sale and delivery of such Authority Securities, BVES NewCo would enter into a loan agreement or other form of security agreement or a sale-leaseback agreement with the Authority; and

(3) Concurrent with the sale and delivery of such Authority Securities, BVES NewCo would issue and deliver to the Authority, in consideration of the Authority's obligations set forth in (2) above, the New Debt Securities (the terms and conditions of such New Debt Securities to be substantially consistent with

the terms and conditions of the Authority Securities) or would unconditionally guarantee or otherwise secure such Authority's obligations in respect to the Authority Securities, including through obtaining letters of credit or financial guaranty insurance. All rights, title, and interest of such Authority in the New Debt Securities would be assigned to a trustee under an indenture, pursuant to which the Authority Securities would be issued, as security for the purchasers of the Authority Securities.

BVES NewCo hereby requests authorization to execute and deliver, as necessary, such agreements, letters of credit or other security or guarantees as may be necessary, in the form which BVES NewCo believes appropriate and which reflect the terms of the tax-exempt debt financing arrangements.

8.3.4. Bonds and Debentures

If available and cost effective, it is anticipated that bonds or debentures would be sold for cash at an interest rate to be determined by BVES NewCo's board of directors in light of market conditions at the time of sale. The interest rate may be fixed, adjustable or variable or set by auction or remarketing or other rate setting procedures. Bonds or debentures sold at a discount may bear no interest or interest at a rate below the market rate at the time of issuance. It is anticipated that the bonds or debentures could range in maturity from nine months to 40 years or more, and could be non-redeemable or may be redeemable at the option of BVES NewCo at any specified time or upon the occurrence of specified events, and from time to time, prior to maturity. The redemption features of the bonds or debentures may provide for redemption without a premium or for redemption (A) at redemption prices ranging from (i) an amount equal to the principal amount plus a premium, expressed as a percentage of the principal amount, commencing with the 12-month period beginning with the date of the bonds or debentures, or at some later date, and decreasing each 12 months thereafter, to (ii) 100% of the principal amount of the bonds or debentures by the year of maturity, (B) under some type of "make-whole" formula, or (C) utilizing a combination of both methods, plus, in each case, accrued interest.

Bonds or debentures may not be redeemable for a specified period or until the occurrence of a specified event, may be redeemable at the option of the holder in specified circumstances, or may be required to be redeemed upon the occurrence of certain specified events.

The bonds or debentures may be secured (including mortgage bonds) or unsecured, may be convertible into New Equity Securities, may be issued at par or with an original issue discount, may be subordinated to other debt of BVES NewCo and may contain other terms customary in transactions of this type.

In order to issue bonds or debentures in the public markets, it is anticipated that BVES NewCo would be required to enter into one or more new indentures or supplemental indentures and each series of the bonds or debentures, if issued, would be issued in accordance with the provisions of supplemental indentures or board resolutions to be executed and delivered by BVES NewCo. Such supplemental indentures or board resolutions would set forth, among other things, the aggregate principal amount, interest rate, redemption and sinking fund requirements and the maturity date of that series of bonds or debentures. BVES NewCo hereby requests authorization to execute and deliver, as necessary, new indentures, supplemental indentures or board resolutions in the form, which BVES NewCo believes appropriate and which reflect the terms of the bond or debenture.

The bonds or debentures may be sold on a firm commitment ("underwritten"), or agency ("best efforts") basis. When the bonds or debentures are sold on a firm commitment basis, the underwriting investment banker buys the entire issue at a specified price from BVES NewCo, relieving BVES NewCo from the risk and responsibility of selling and distributing the bonds or debentures. Subsequently the underwriter would sell the issue to other investors. When the bonds or debentures are sold on an agency basis, the investment banker would act as a broker for BVES NewCo and would use its best efforts to sell the issue at a stipulated price; BVES NewCo would bear the risk if the entire issue were not sold.

8.4. Authorization to Issue Short-Term Debt in Excess of 5% of the Par Value of BVES NewCo's Other Securities Then Outstanding

Under Section 823(b) of the PU Code, a public utility may issue notes for proper purposes, payable at a period of not more than 12-months after the date of issuance of such notes without the consent of the Commission.[33] However, under Section 823(c), electric utilities are required to obtain the consent of the Commission if their short-term borrowings exceed

[33] West's Ann. Cal. Pub. Util. Code § 823(b).

5% of the par value of the electric utility's other securities then-outstanding.[34] As set forth in **Exhibit D** to this Application, BVES NewCo's projected total capitalization ranges from $58.09 million in 2019 to $116.18 million in 2023. Accordingly, Commission approval is required for short-term borrowings in excess of $2.9 million to $5.8 million, depending on the relevant year.

Per BVES NewCo's projected statement of cash flow set forth in **Exhibit F**, in order to fund its on-going operational needs and support BVES NewCo's investment in infrastructure and safety measures, BVES NewCo anticipates short term borrowings in excess of those thresholds. BVES NewCo's projected short term borrowing needs result from (i) its anticipated capital spending of approximately $65 million over the next five years, as summarized in **Exhibit E,** and, more specifically, when the funds for those capital projects are expected to be expended, and (ii) when BVES NewCo's additional equity and its own debt securities, which are being requested in this Application (not to exceed $75 million in the aggregate), are presently expected to be issued over the next 5 years. A Statement of Projected Capitalization Ratios and Schedule of Security Issuances for the 5-Years 2019 - 2023 is attached hereto as **Exhibit D**. The periods with higher capital expenditures in years when no other long-term issuances occur would result in a greater need for short term borrowings. Specifically, BVES NewCo presently anticipates a short-term borrowing of $18.42 million in 2020 and $5.45 million in 2022 due to the anticipated capital spending in those respective years, as summarized in **Exhibit E**. BVES NewCo notes that these short-term borrowing amounts could be lower due to

[34] West's Ann. Cal. Pub. Util. Code § 823(c).

changes in the timing of capital projects and/or the timing of its long-term debt issuances, as the company intends to issue long-term debt when the most favorable terms are available in the market. But based on current projections, BVES NewCo anticipates that in both 2020 and 2022, BVES NewCo's short term borrowings would be greater than 5% of its projected total capitalization. Therefore, to have maximum flexibility with regard to the timing of its long-term debt issuances, in accordance with Section 823(c) of the PU Code, BVES NewCo requests that the Commission authorize short-term borrowings in excess of 5% of the par value of the company's other securities then-outstanding.

Upon approval of the reorganization plan by the Commission, BVES NewCo will begin the process of putting in place its own short term borrowing arrangement under a revolving credit facility to support its working capital and infrastructure needs. Permitting BVES NewCo to make short-term borrowings under this revolving credit facility in excess of 5% of the par value of its other securities then-outstanding would provide BVES NewCo with the opportunity to use short-term debt when market conditions for long-term financing are unattractive. The Commission has provided authorizations under Section 823(c) to other electric utilities for such reasons.[35]

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[35] Decision 97-12-111, 1997 WL 878328 (Cal.P.U.C.) at *3 (authorizing Sierra Power Company to maintain short-term debt outstanding in an amount that was 14.80% of its total capitalization and stating: "This debt facility will provide Sierra the opportunity to secure short-term debt when market conditions for long-term financing are unattractive"); see, also, Decision 96-07-054, 1996 WL 465816 (Cal.P.U.C.) at Finding of Fact #2 (finding that allowing Southern California Edison Company to issue short-term notes in excess of the 5% threshold set forth in Section 823(c) would provide flexibility to use short-term borrowings when market conditions for long-term debt are not favorable).

8.5. Authorization to Allow Short-Term Borrowings to remain Outstanding for a Period of Up to 24 Months

Section 818 of the PU Code and the rules adopted by Decision 98-08-068, Golden State's holding company decision, restrict the issuance of short-term debt to a 12-month period. Both rules require the utility to receive prior approval from the Commission of any indebtedness payable at periods of more than 12-months after the date of issuance. BVES NewCo requests that the Commission waive the requirements of Section 818 and the holding company rules only as they apply to BVES NewCo's short-term borrowing arrangements described below, and that it be allowed to increase the period of time that its short-term borrowings remain outstanding from the statutory and holding company rules maximum period of 12 months to a maximum period of 24 consecutive months.

In Decision 12-11-034, the Commission granted Golden State a waiver from the requirements of Section 818 and the rules adopted by Decision 98-08-068 and granted Golden State authority to issue new short-term debt securities under its revolving credit arrangements for short-term purposes for a term of up to 24 months.[36] The Commission recognized that it had authorized such exceptions for other utilities when good cause was shown and the purpose of the debt securities was specifically identified.[37] In connection with that waiver, the Commission found that Golden State's short-term borrowing rate was significantly lower than its long-term debt rate.[38] The Commission

[36] Decision 12-11-034 at Ordering Paragraph #13.

[37] Decision 12-11-034 at Finding of Fact #12.

[38] Decision 12-11-034 at Finding of Fact #13.

also explained that issuing more short-term debt in order to accumulate debt securities, so that larger long-term debt securities could be issued less frequently, was a reasonable basis on which to authorize Golden State to issue short-term debt over a 24-month term.[39]

Factors similar to those that supported authorizing Golden State to issue new short-term debt securities under its revolving credit arrangements and to maintain those short-term debt securities outstanding for up to 24 months support the same authorization for BVES NewCo in this proceeding. Upon the completion of the reorganization plan described in this Application, BVES NewCo plans to set-up its own short term borrowing arrangements under a revolving credit facility, as described in Section 8.4, above. The waiver requested herein would give BVES NewCo greater flexibility to defer the issuance of long-term debt and equity in the face of potential market disruptions in order to repay short-term borrowings under the revolving credit arrangements. The waiver would also reduce the costs of obtaining long-term capital by enabling BVES NewCo to issue larger amounts of long-term debt less frequently. Given the cost of issuance for long-term debt, it is more cost effective to accumulate shorter-term debt in order to eventually issue a larger amount of long-term debt in a given issue.

BVES NewCo would use the amounts borrowed under its short-term borrowing arrangements for working capital purposes, and such borrowings would be recorded as short-term debt. Under BVES NewCo's revolving credit arrangements, amounts would be

[39] Decision 12-11-034 at 15.

borrowed and repaid based on BVES NewCo's monthly cash needs to fund current operations. On a month-to-month basis, BVES NewCo may be in a net borrowing or net payment position depending on its cash availability. Under Section 818 and the holding company rules, such net outstanding borrowings would be required to be brought down to zero at least once every twelve months. With this waiver request, BVES NewCo would be allowed to bring the balance down to zero at least once every 24 months, just as the Commission has authorized for Golden State. Even with the waiver, BVES NewCo would continue using amounts borrowed under its revolving credit arrangements for working capital purposes and would continue to record such borrowings as short-term debt.

BVES NewCo has shown both that there is good cause to allow its short-term borrowings under revolving credit arrangements to remain outstanding for up to 24 months and the purposes for which such debt securities would be used. Accordingly, BVES NewCo requests that the Commission grant the waiver requested herein. In connection with this waiver request, BVES NewCo also requests that the Commission find that borrowings made under its revolving credit facility that allows short-term borrowings to remain outstanding for up to 24 consecutive months qualify as short-term debt under Section 823(b) of the PUC Code.

8.6. Financing Rule

Rules adopted in Commission Decision No. 12-06-015 issued on June 7, 2012 (referred to as the "Financing Rule"[40]) replaced the Competitive Bidding Rule under Commission

[40] On June 7, 2012, the Commission issued Decision 12-06-015, which adopted a New Financing Rule and General Order 24-C.

Decision No. 38614, as amended in Commission Decision Nos. 49941, 75556, and 81908 and Commission Resolutions No. F-591 and No. F-616. Among the changes, the Financing Rule allows utilities to choose whether to issue debt via competitive or negotiated bid, as long as the basis for the method is chosen to achieve the lowest cost of capital; requires utilities with $25 million or more of operating revenues to make every effort to encourage, assist, and recruit Women-, Minority-, Disabled Veteran-Owned Business Enterprises ("WMDVBE") in being appointed as lead underwriter, book runner or co-manager of debt offerings; eliminates the notification and form of communication requirement for the solicitation of bids; has new requirements for the use of Debt Enhancement Features; and provides additional exemptions applicable to the use of the Financing Rule.

8.6.1. Supplier Diversity Program

Golden State has complied with Sections 8281-8286 of the PU Code and the Commission's General Order 156 for both Golden State's water utility operations and BVES Division's electric utility operations. Upon implementation of the Plan, BVES NewCo would take all actions necessary to ensure continued compliance, including implementing for itself all programs and plans required under General Order 156 and complying with the reporting obligations set forth therein. In accordance with the foregoing, BVES NewCo commits to use its best efforts to encourage the participation of diverse suppliers in any transaction conducted under the requested authorization in this Application. In addition, where diverse suppliers are unavailable or unqualified to perform the subject services, BVES NewCo commits to use its best efforts to encourage the secondary use of diverse suppliers by its selected suppliers.

9. Applicant Information

Golden State Water Company, a California corporation organized under the laws of the State of California on December 31, 1929, is a public utility rendering water service in various areas in the counties of Contra Costa, Imperial, Lake, Los Angeles, Orange, Sacramento, San Bernardino, San Luis Obispo, Santa Barbara and Ventura and electric service, through its BVES Division, in the vicinity of Big Bear Lake in San Bernardino County. Golden State Water Company is a regulated subsidiary of American States Water Company. Its postal address and principal place of business is:

630 East Foothill Boulevard,
San Dimas, California 91773-9016
Tel. (909) 394-3600, Ext. 680

Originally named “Southern California Water Company”, the company formally changed its name to “Golden State Water Company” on September 30, 2005. Golden State's Restated Articles of Incorporation (Articles), as amended on September 16, 2005, are attached as **Exhibit G**. Golden State Water’s Bylaws are attached as **Exhibit H**.

Golden State Water Company’s latest available Balance Sheet and Income Statement (Form 10-Q) filed with the Securities and Exchange Commission are attached hereto as **Exhibit I**.

Bear Valley Electric Service, Inc. is a California corporation organized under the laws of the State of California on December 12, 2018. Bear Valley Electric Service, Inc.'s Articles of Incorporation and Bylaws are attached as **Exhibits J and K**, respectively. Bear Valley Electric Service, Inc.'s pro forma balance sheet is attached as **Exhibit C**.

Correspondence and communications in regard to this Application should be addressed to Keith Switzer, Vice President, Regulatory Affairs, Golden State Water Company, at the above address and telephone number, with a copy of such correspondence to Golden State's counsel:

Joseph M. Karp, Esq.
Winston & Strawn LLP
101 California Street
San Francisco, California 94111
Tel. (415) 591-1400

10. Proposed Categorization, Need for Hearing and Proposed Schedule

In accordance with Rule 7.1(a) of the Commission's Rules of Practice and Procedure, the Applicants provide the following information concerning "the proposed category for the proceeding, the need for hearing, the issues to be considered, and a proposed schedule."

The Applicants propose to categorize this Application as a "ratesetting" proceeding within the meaning of Rule 1.3(f) and in accordance with Rule 7.1(e). Accordingly, the Applicants file with this Application as Exhibits A through K supplemental information pertaining to the authorizations requested in this Application as required by the PU Code. The Applicants believe that no hearing is necessary in this proceeding and respectfully request that the Commission find that no hearing is necessary in respect of this Application. The Commission's grant of the authorizations sought herein at the earliest possible date would permit the Applicants to proceed with the proposed restructuring and financings in an expeditious manner. Such expeditious treatment would, in turn, allow each of Golden State and BVES NewCo to pursue its utility objectives in a timely and cost-effective manner to the benefit of ratepayers.

If, however, the Commission finds that a public hearing is necessary, the Applicants request that such hearings be conducted as soon as practicable. The Applicants are prepared to proceed with any necessary hearing.

The Applicants propose the following procedural schedule:

EVENT	**DATE**
Application filed	December 14, 2018
Protest filed, if any	30-days after notice of filing in the Commission's Daily Calendar (approx. January 14, 2019)
ALJ Draft Decision	March 2019
Comments on Draft Decision	April 2019
Final Commission Decision	May 2019

11. Conclusion

As demonstrated herein, the Applicants believe that Commission approval of this Application is in the public interest. The Plan will strengthen the financial separation between the water line of business and electric line of business and provide for greater flexibility in financing. Both water and electric customers will benefit from these changes, and will not be detrimentally affected by the Plan. Neither the Commission's regulatory oversight nor the day-to-day operations of either the electric utility or the water utility will change as a result of the Plan.

WHEREFORE, the Applicants respectfully request that the Commission:

1) Find that valid business purposes exist for the Plan;
2) Find that the Plan and future operations of BVES NewCo will be conducted pursuant to conditions that will be adequate to protect the public interest;
3) Find that there will be ratepayer indifference to the effects of the Plan, and, accordingly, authorize the Plan, including all transactions necessary to implement the Plan as described herein, under Section 818;
4) Find that the Plan is not a transaction subject to review under Section 851;
5) Find that Section 854 does not apply to the Plan or, in the alternative, find that the Plan is not adverse to the public interest and, accordingly, authorize the Plan under Section 854;
6) Find that the CPCN held by Golden State in connection with the operation of BVES is transferable to BVES NewCo;
7) Find that BVES NewCo continues to be exempt from the application of the Energy Affiliate Transaction Rules;

8) Find that the Plan does not have the potential to result in a significant effect on the environment, such that it is not subject to the California Environmental Quality Act;

9) Authorize BVES NewCo to issue, sell and deliver by public offering or private placement securities not exceeding $75 million in aggregate offering amount, said securities consisting of, but not limited to, (i) common shares ("New Equity Securities") not exceeding $25 million, and (ii) bonds, debentures, notes, and other evidences of indebtedness not exceeding $50 million ("New Debt Securities") on terms and conditions in accordance with this Application (collectively, the "New Securities");

10) Authorize BVES NewCo to use the net proceeds to be received from the New Securities for the purposes permitted under Section 817 of the PU Code, including (i) the retirement and discharge of all or a portion of any outstanding short-term borrowings issued for temporary financing of additions to BVES NewCo's utility plant, (ii) the support of BVES NewCo for its capital investment in infrastructure and safety measures, and (iii) the support of BVES NewCo's on-going operational needs;

11) Authorize BVES NewCo to execute and deliver one or more indentures, supplemental indentures or board resolutions and/or loan, credit or note purchase agreements or other agreements;

12) Authorize BVES NewCo, under Section 823(c) of the PU Code, to make short-term borrowings in excess of 5% of the par value of the company's other securities then-outstanding;

13) Grant BVES NewCo a waiver from the requirements of Section 818 of the PU Code and the holding company rules issued on June 18, 1998 in Decision 98-06-068 as they apply only to BVES NewCo's short-term borrowings under its revolving credit arrangements; such waiver would authorize BVES NewCo to borrow under revolving credit arrangements and would allow its short-term borrowings under such arrangements to remain outstanding for a maximum period of 24 consecutive months, as opposed to the statutory and holding company maximum period of 12 months;
14) In connection with the waiver allowing BVES' short-term borrowings under revolving credit arrangements to remain outstanding for 24 consecutive months, specify that short-term borrowings made under a revolving credit facility that allows such borrowings to remain outstanding for up to 24 consecutive months qualify as short-term debt under Section 823(b) of the PU Code;
15) Specify that the financing authority granted pursuant to this Application shall become effective upon the payment of fees prescribed by Sections 1904(b) and 1904.1 of the PU Code; and
16) Grant such further relief as the Commission deems appropriate.

Respectfully submitted on December 14, 2018.

By /s/ KEITH SWITZER

Keith Switzer

Vice President, Regulatory Affairs

GOLDEN STATE WATER COMPANY

By /s/ GLADYS FARROW

Gladys Farrow

Treasurer and Secretary

BEAR VALLEY ELECTRIC SERVICE, INC.

VERIFICATION

With respect to the within Application, the undersigned certifies that he holds the position indicated below his name, that he is authorized to make this verification for and on behalf of said entity; that he has read the Application and knows the contents thereof; and that the same is true of his own knowledge and belief, except as to those matters which are thereon stated upon his information or belief, and as to those matters, he believes them to be true.

The undersigned declares under penalty of perjury that the foregoing is true and correct.

Executed on December 14, 2018, in the City of San Dimas, California.

By /s/ KEITH SWITZER

Keith Switzer

Vice President, Regulatory Affairs

GOLDEN STATE WATER COMPANY

EXHIBIT A

DIAGRAM OF PLANNED STEPS OF REORGANIZATION

Exhibit A[1]

Prior to Transfer

Shareholders
↓
American States Water Company
↓
Golden State Water Company ("Golden State") (holds water utility assets and, in its BVES division, electric utility assets)

Plan Step 1: Golden State forms Bear Valley Electric Service, Inc. ("BVES NewCo"), a California corporation,

Shareholders
↓
American States Water Company
↓
Golden State (holds water utility assets and, in its BVES division, electric utility assets)
↓
BVES NewCo

Plan Step 2: Golden State transfers electric utility assets to BVES NewCo in exchange for BVES NewCo stock

Shareholders
↓
American States Water Company
↓
Golden State (holds water utility assets)
↓
BVES NewCo (holds electric utility assets)

Plan Step 3: GSWC transfers ("spins") BVES NewCo stock to American States Water Company

Shareholders
↓
American States Water Company
↓ ↓
Golden State (holds water utility assets) BVES NewCo (holds electric utility assets)

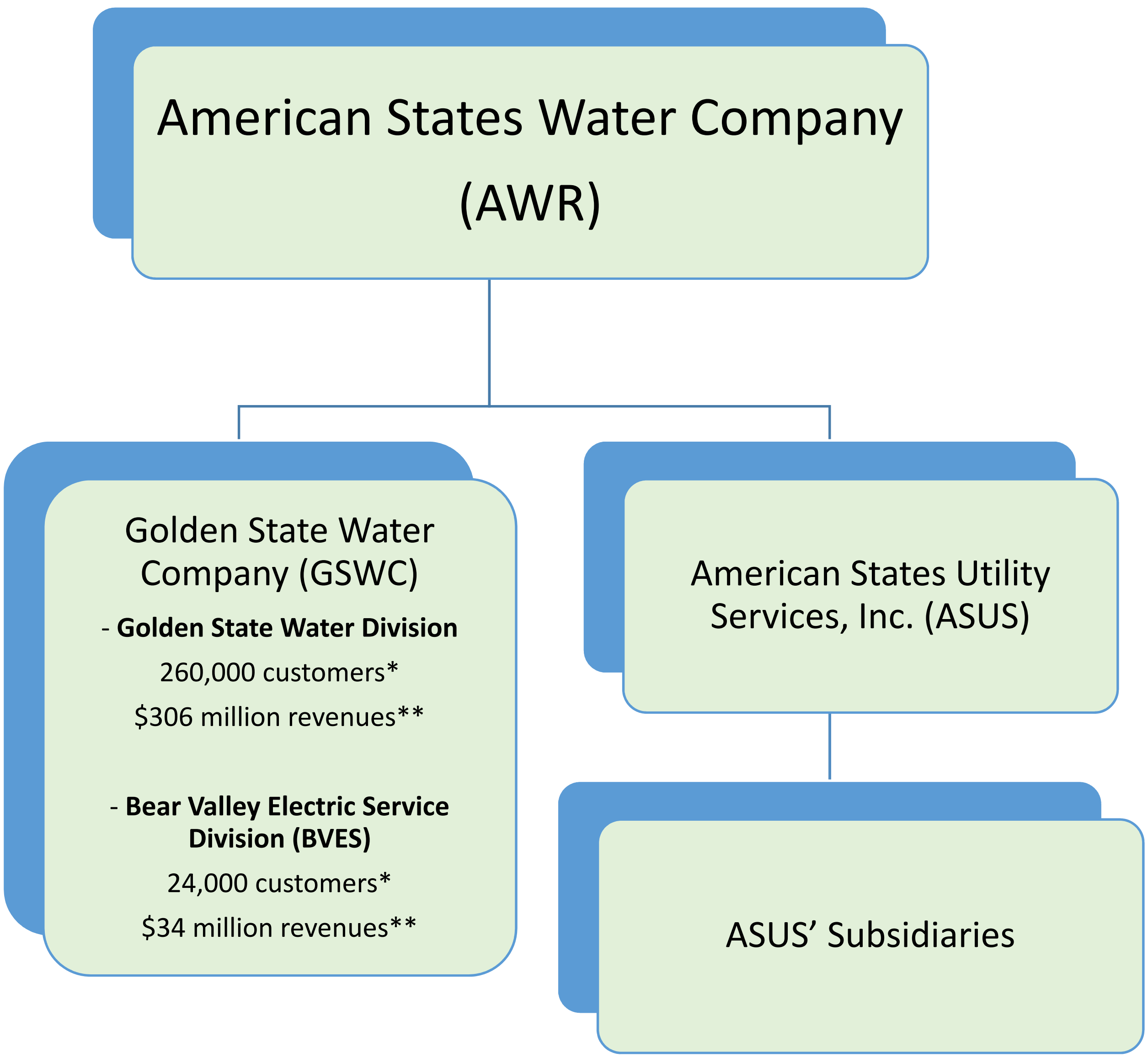
[1] The diagrams included in this Exhibit A exclude American States Water Company's subsidiary, American States Utility Services, Inc., and Golden State's subsidiary, Cal Cities, as the proposed Plan would have no impact on the ownership of either of these subsidiaries.

EXHIBIT A-1

CURRENT STRUCTURE

Exhibit A-1

Current Structure



* As of September 30, 2018
** As of December 31, 2017

EXHIBIT A-2

POST-REORGANIZATION STRUCTURE

Exhibit A-2

Post-Reorganization Structure

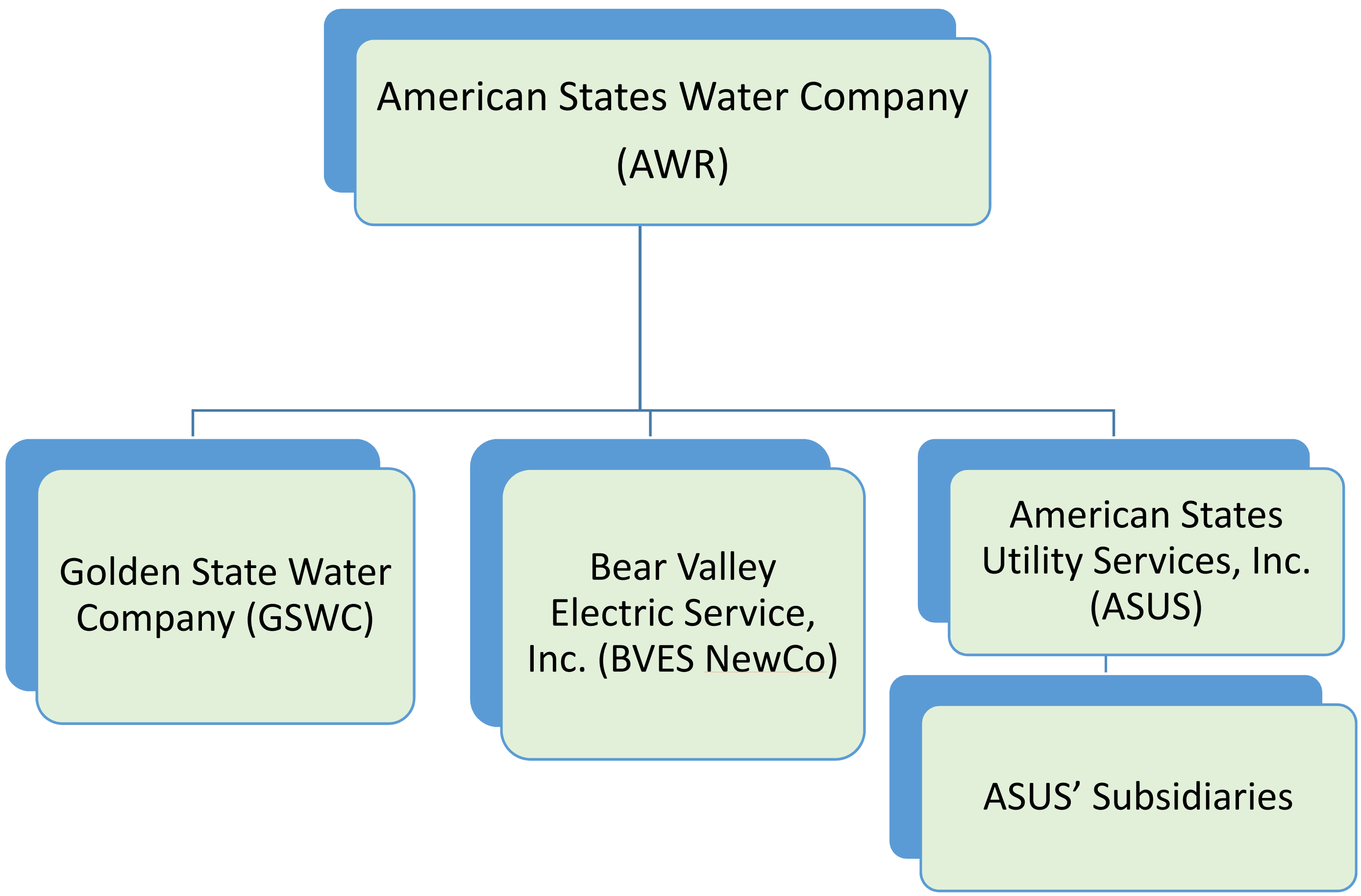


EXHIBIT B

CONTRIBUTION AND SPIN-OFF AGREEMENT

CONTRIBUTION AND SPIN-OFF AGREEMENT

This Contribution and Spin-off Agreement (the "Agreement"), is dated and entered into as of December 13, 2018, by and among (i) Golden State Water Company, a California corporation ("GSWC"), (ii) Bear Valley Electric Service, Inc., a California corporation ("BVES"), and (iii) American States Water Company, a California corporation and parent of GSWC ("Parent"). GSWC, BVES and Parent are sometimes hereinafter referred to individually as a "Party," and collectively as the "Parties."

RECITALS

WHEREAS, GSWC is a public utility engaged principally in the business of the purchase, production, distribution and sale of water in ten (10) counties in California (the "Water Utility Business");

WHEREAS, GSWC is also engaged in the business of the distribution of electricity in several mountain communities in San Bernardino County, California (the "Electric Utility Business");

WHEREAS, it is desirable for the Water Utility Business and Electric Utility Business to be conducted by separate subsidiaries of Parent; and

WHEREAS, BVES has been formed for the purpose of operating the Electric Utility Business as a wholly-owned subsidiary of Parent.

NOW, THEREFORE, in consideration of the mutual covenants and agreements and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 Defined Terms. The following terms have the following meanings:

"Action" means any controversy, claim, litigation, arbitration, mediation or other proceeding before any governmental entity, arbitrator, mediator or other person acting in a dispute resolution capacity, or any investigation, subpoena or demand preliminary to any of the foregoing.

"Agreement" has the meaning given such term in the Preamble hereto.

"Assumed Liabilities" has the meaning given such term in Section 2.4

"Business Day" means a day other than a Saturday, a Sunday or other day on which banking institutions in Los Angeles, California are authorized or required to close.

"BVES" has the meaning given such term in the Preamble hereto.

"Closing" has the meaning given such term in Section 3.1.

"Closing Date" has the meaning given such term in Section 3.1.

"Contributed Assets" has the meaning given such term in Section 2.1.

"County" means San Bernardino County, California.

"CPUC" means the California Public Utilities Commission.

"Customers" means the customers of the Electric Utility Business.

"Damages" has the meaning given such term in Section 5.5(a).

"Distributed Shares" has the meaning given such term in Section 2.5.

"Electric Utility Business" has the meaning given such term in the Recitals hereto.

"Electronic Delivery" has the meaning given such term in Section 7.10.

"Employee Benefit Plans" has the meaning given such term in Section 5.6.

"Excluded Assets" has the meaning given such term in Section 2.1.

"Excluded Liabilities" has the meaning given such term in Section 2.4.

"FERC" means the Federal Energy Regulatory Commission.

"Franchise Agreement" means Ordinance No. 1642 of the County, adopted by the Board of Supervisors of the County on May 24, 1971.

"Governmental Authority" means any federal, state, county, or city governmental or regulatory authority, agency, court, commission, or other governmental or regulatory entity.

"GSWC" has the meaning given such term in the Preamble hereto.

"Issued Shares" has the meaning given such term in Section 2.3.

"Law" means any law, statute, rule, regulation, ordinance or other pronouncement having the effect of law of the United States, any state, county, city, territory, or other political subdivision of any Governmental Authority.

"Liabilities" means all debts, liabilities, commitments, agreements, obligations or other claims, whether asserted or unasserted, absolute or contingent, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, due or to become due, whenever arising, whether contractual, statutory or otherwise, and whether or not the same would properly be reflected on a balance sheet prepared in accordance with generally accepted accounting principles.

"Parent" has the meaning given such term in the Preamble hereto.

"Party" has the meaning given such term in the Preamble hereto.

"Real Property" means all interests of GSWC in any real property used, held for use or otherwise primarily related to the Electric Utility Business.

"Transactions" means the transactions contemplated by this Agreement, including those described in Article II.

"Water Utility Business" has the meaning given such term in the Recitals hereto.

1.2 Construction.

(a) The language used in this Agreement shall be deemed to be the language chosen by the Parties hereto to express their collective mutual intent, and no rule of strict construction shall be applied against any Party.

(b) The words "hereby," "herein," "hereof;" "hereunder" and words of similar import refer to this Agreement as a whole (including any exhibits hereto) and not merely to the specific section, paragraph or clause in which such word appears.

(c) All references herein to Sections and Exhibits shall be deemed references to Sections of, and Exhibits to, this Agreement unless the context shall otherwise require.

(d) The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation."

(e) The definitions given for terms in this Article I and elsewhere in this Agreement shall apply equally to both the singular and plural forms of the terms defined. All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein.

(f) Unless otherwise expressly provided, all references to days shall be deemed references to calendar days.

(g) Except as otherwise expressly provided herein, all references to "dollars" or "$" shall be deemed references to the lawful money of the United States of America.

(h) References herein to this Agreement mean this Agreement as from time to time amended, modified or supplemented, including by waiver or consent. Any agreement or instrument defined or referred to herein, or in any agreement or instrument that is referred to herein, means such agreement or instrument as from time to time amended, modified or supplemented, including by waiver or consent.

(i) Any reference to any particular section or any other Law will be interpreted to include any revision of or successor to that section regardless of how it is numbered or classified.

ARTICLE II
THE TRANSACTIONS

2.1 Contribution of Assets. Upon the terms and subject to the conditions of this Agreement, at the Closing, GSWC shall hereby contribute, transfer, assign, convey and deliver to BVES, and BVES shall hereby accept from GSWC, all of GSWC's right, title and interest in, to and under any assets, properties and business of every kind and description, wherever located, real, personal or mixed, tangible or intangible, owned, held, used, or held for use in connection with the Electric Utility Business, including the assets listed on **Exhibit A** (collectively, the "Contributed Assets"), at the net book value thereof. Notwithstanding the foregoing, the Contributed Assets shall not include any assets, properties and business of every kind and description, wherever located, real, personal or mixed, tangible or intangible, owned, held, used, or held for use in connection with the Water Utility Business, or any assets listed on **Exhibit B** (collectively, the "Excluded Assets").

2.2 Consideration. The total consideration for the contribution of the Contributed Assets pursuant to Section 2.1 shall consist of:

(a) the issuance and delivery of the Issued Shares to GSWC pursuant to Section 2.3; and

(b) the assumption of the Assumed Liabilities by BVES pursuant to Section 2.4.

2.3 Issuance of Shares. Upon the terms and subject to the conditions of this Agreement, at the Closing, BVES shall hereby issue and deliver to GSWC one hundred (100) shares of common stock of BVES (the "Issued Shares").

2.4 Assumption of Liabilities. Upon the terms and subject to the conditions of this Agreement, at the Closing, BVES shall hereby assume and agrees to pay, perform and discharge, fully and completely any Liabilities of GSWC arising from or related to the Electric Utility Business, including the liabilities set forth on **Exhibit C** (collectively, the "Assumed Liabilities"), at the net book value thereof. Notwithstanding the foregoing, the Assumed Liabilities shall not include any Liabilities related to the Excluded Assets or any liabilities listed on **Exhibit D** (collectively, the "Excluded Liabilities").

2.5 Spin-Off. Upon the terms and subject to the conditions of this Agreement, immediately following the consummation of the Transactions contemplated by Section 2.1 (*Contribution of Assets*), Section 2.3 (*Issuance of Shares*), and Section 2.4 (*Assumption of Liabilities*), GSWC shall, subject to applicable Law and by action of its board of directors, distribute to Parent all of the issued and outstanding shares of common stock of BVES then held by GSWC (the "Distributed Shares").

2.6 Exhibits. The Exhibits to this Agreement shall be revised immediately prior to the Closing Date by mutual agreement of the Parties to identify with more specificity the Contributed Assets shown on **Exhibit A**, the Excluded Assets shown on **Exhibit B**, the Assumed Liabilities shown on **Exhibit C** and the Excluded Liabilities shown on **Exhibit D**, and in each case, to reflect changes to the exhibits for matters that arise in the ordinary course of business between the date hereof and the Closing Date.

ARTICLE III
CLOSING

3.1 Closing. The closing of the Transactions (the "Closing"), shall take place at the offices of Winston and Strawn located at 333 South Grand Avenue, Suite 3800, Los Angeles, California 90071 on the third (3rd) Business Day following full satisfaction, or waiver by the Party or Parties entitled to the benefits, of all of the closing conditions set forth in Article VI (other than those to be satisfied at the Closing, but subject to the satisfaction, or waiver by the Party or Parties entitled to the benefits, of those conditions) or on such other date as is mutually agreeable to the Parties. The date and time of the Closing are referred to herein as the "Closing Date."

3.2 Closing Transactions. Pursuant to the terms and subject to the conditions set forth in this Agreement, at the Closing,

(a) GSWC shall contribute the Contributed Assets to BVES pursuant to the terms of a bill of sale or other documentation in form and substance reasonably satisfactory to BVES;

(b) BVES shall assume the Assumed Liabilities pursuant to the terms of an assumption of liabilities or other documentation in form and substance reasonably satisfactory to GSWC;

(c) GSWC shall execute, deliver and record all deeds and other instruments of transfer necessary to transfer the Real Property to BVES in the County;

(d) BVES shall issue the Issued Shares to GSWC;

(e) GSWC shall distribute the Distributed Shares, to Parent pursuant to an action by its board of directors in form and substance reasonably satisfactory to Parent; and

(f) Each of the Parties shall deliver or cause to be delivered such other documents, instruments or certificates as the other Parties reasonably request to effect the Transactions.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties. As an inducement to the other Parties to enter into this Agreement and to consummate the transactions contemplated by this Agreement, each Party represents and warrants to the other Parties that (a) this Agreement has been duly and validly authorized, executed and delivered by such Party, and such Party has full power and authority to execute and deliver this Agreement and to consummate the Transactions without violating the terms of or constituting a default under any covenant, agreement or undertaking by which such Party is bound, such Party's organizational documents, or any applicable Law, including any rule, regulation, order, writ, judgment, injunction, decree or award by which it is bound, and (b) this Agreement constitutes the legal, valid and binding obligation of such Party enforceable in accordance with its terms (except as such enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar Laws affecting creditors' rights generally and by general equitable principles).

4.2 Survival of Representations and Warranties. The representations and warranties contained in this Agreement are deemed to and do survive the execution hereof.

ARTICLE V
OTHER AGREEMENTS

5.1 Regulatory Approvals. Following the execution of this Agreement, GSWC and BVES shall file an application with the CPUC requesting approval of the Transactions, and GSWC shall file a separate application with the FERC requesting approval of the Transactions. The Parties shall reasonably cooperate with each other in making all filings and providing all notices that may be required in connection with obtaining all regulatory approvals necessary to consummate the Transactions.

5.2 County Franchise Agreement. Following the execution of this Agreement, GSWC or BVES, as applicable, shall use its reasonable best efforts to obtain the consent of the County to the transfer of the Franchise Agreement or otherwise obtain rights to, from time to time, construct, maintain and use all property that is used or useful in transmitting or distributing electricity in connection with the Electric Utility Business and that is located along, across, upon, over and under County highways.

5.3 Permits and Third-Party Consents. BVES shall use its reasonable best efforts to obtain all permits necessary to consummate the Transactions, and GSWC shall use its reasonable best efforts to obtain the consent of all third parties necessary to consummate the Transactions. Each of Parent and GSWC, as applicable, shall provide such reasonable assistance as may be reasonably requested by BVES or GSWC, as applicable, in connection with the foregoing.

5.4 Termination. At any time prior to the Closing, this Agreement may be terminated by mutual agreement of the Parties.

5.5 Indemnification.

(a) Indemnification by GSWC. On and after the Closing Date, GSWC will indemnify and hold harmless BVES and its officers, directors, employees, agents and representatives from and against, and will promptly defend such parties and reimburse such parties for any and all losses, damages, costs, expenses, Liabilities, obligations and claims of any kind, including reasonable attorneys' fees and other costs and expenses

("Damages") which such parties may directly or indirectly at any time suffer, incur or become subject to, as a result of or in connection with (i) any breach of any representation or warranty of GSWC in this Agreement, (ii) the breach of any covenant by GSWC in this Agreement, or (iii) any Liabilities relating in any manner to the Excluded Assets or the Excluded Liabilities.

(b) Indemnification by BVES. On and after the Closing Date, BVES will indemnify and hold harmless GSWC and its officers, directors, employees, agents and representatives from and against, and will promptly defend such parties and reimburse such parties for any and all Damages which such parties may directly or indirectly at any time suffer, incur or become subject to, as a result of or in connection with (i) any breach of any representation or warranty of BVES in this Agreement, (ii) the breach of any covenant by BVES in this Agreement, or (iii) any Liabilities relating in any manner to the Electric Utility Business, other than any Liabilities relating to the Excluded Assets or the Excluded Liabilities.

(c) Insurance Coverage. The indemnification to which any party is entitled hereunder will be net of all insurance proceeds, if any, received by the indemnified party with respect to the losses for which indemnification is provided in this Section 5.5.

5.6 Employee Matters. All persons employed in the Electric Utility Business on the Closing Date immediately prior to consummation of the Transactions shall, upon the Closing, become employees of BVES on the Closing Date. All employees or former employees employed in the Electric Utility Business will continue to be entitled to all benefits to which they were entitled on the Closing Date under all employee benefit plans, programs, policies and arrangements of GSWC or Parent (the "Employee Benefit Plans"). The Parties shall execute all such documents and take all such actions as may be reasonably necessary to give effect to the provisions of this Section 5.6.

5.7 Insurance.

(a) Named Insureds. Parent shall take all actions as may be reasonably necessary to add BVES as a named insured under its current insurance policies, including Auto, General Liability, Worker's Compensation, Umbrella and Excess Policies, Pollution Liability, Cyber Liability, Employment Practices Liability, Fiduciary Liability, Professional Liability, and Crime, and to name the officers and directors of BVES as named insureds under its directors' and officers' insurance policies, in each case, effective as of the Closing Date.

(b) Other Insurance Matters. At the request of BVES, GSWC will use all commercially reasonable efforts to assert and administer or assist BVES to assert and administer, one or more claims under any policy of insurance covering Damages suffered by BVES on and after the Closing Date relating to, resulting from or arising out of the conduct of the Electric Utility Business prior to the Closing Date for which GSWC would be entitled to assert, or cause any other person to assert, a claim for recovery under any policy of insurance maintained by Parent or for the benefit of GSWC in respect of the

Electric Utility Business, other than with respect to the Excluded Assets or Excluded Liabilities, or any employee of the Electric Utility Business, if BVES or any such other person is not entitled to assert such claim. Any recovery with respect thereof will be paid to the party suffering the Damage, provided, however, that all of GSWC's reasonable costs and expenses incurred in connection with the foregoing, including retroactive or other premium matters, shall be promptly reimbursed by BVES to GSWC.

5.8 Litigation Matters. On and after the Closing Date, each Party will aid any other Party in the defense of any third-party Action relating to the Electric Utility Business, and make available during normal business hours, but without unreasonably disrupting their respective businesses, all personnel and records in their possession, custody and/or control relating to the Electric Utility Business necessary to permit the effective defense or investigation of such Action. If information other than that pertaining to the Electric Utility Business is contained in such records, the Parties will make reasonable efforts to protect the confidentiality of such information. To the extent such Action relates solely to the Electric Utility Business, other than the Excluded Assets or Excluded Liabilities, all documented costs will be borne by BVES. To the extent that any such Action relates to the Excluded Assets, Excluded Liabilities or GSWC's Water Utility Business, all documented costs will be borne by GSWC.

5.9 Tax Matters.

(a) Income Tax Consequences. The Parties understand that the form chosen to transfer the Contributed Assets, as described in this Agreement, is intended to comply with the federal and state income tax reorganization provisions in order to avoid any income tax consequences arising from the transfer. The form reflected in the Agreement reflects the following two steps: (i) GSWC contributing the Contributed Assets and assigning the Assumed Liabilities to its subsidiary, BVES, in exchange for the Issued Shares, and (ii) GSWC distributing the Distributed Shares to Parent. The Parties understand that a consequence of using this form of transfer is that the amount and nature of the accumulated deferred income taxes recorded at GSWC related to the Contributed Assets and Assumed Liabilities will be transferred to and recorded at BVES for the same amount and retain the same character.

(b) Property Tax Consequences. The Parties understand that the transfer of the Contributed Assets to BVES will result in GSWC's water utility assets (except for water pipelines that cross county borders) becoming subject to local property tax assessment and that the Contributed Assets will remain subject to central property tax assessment after their transfer to BVES.

(c) Transfer Taxes. The Parties understand that the transfer of the Contributed Assets may be subject to a county and/or city transfer fee and that such fee, if assessed, will be assessed to GSWC as the transferor. The Parties understand that it may not be known whether a transfer fee will be assessed until after the Closing Date.

(d) Income Tax Sharing Arrangement. The Parties understand that GSWC and BVES will be subject to an income tax sharing arrangement with Parent whereby GSWC and BVES will each be expected to pay its respective share of the Parent's consolidated income tax liability.

5.10 Further Assurances. GSWC shall from time to time on and after the Closing Date at the request of BVES and without further consideration execute and deliver to BVES such additional instruments of transfer and assignment, including without limitation, any bills of sale, assignments of leases, deeds and other recordable instruments of assignment transfer and conveyance as BVES may reasonably request to evidence more fully the assignment by GSWC to BVES of the Contributed Assets. BVES shall from time to time on and after the Closing Date and without further consideration execute and deliver to GSWC such additional instruments of assumption of the Assumed Liabilities as GSWC shall reasonably request to evidence more fully the assumption by BVES of the Assumed Liabilities

5.11 Post-Closing Notices and Filings. Within ten (10) days after the Closing Date, GSWC will file a notice with FERC advising that the Transactions are complete, and BVES will file a notice of succession to GSWC's market-based rate tariff. Following the Closing Date, BVES will file a Form FERC-65B claiming exemption from the Public Utility Holding Company Act of 2005 as a single-state electric utility company. Following the Closing Date, BVES shall notify Customers that BVES shall own and operate the Electric Utility Business, which notice shall comply with any orders of the CPUC concerning the form and/or substance of such notice.

5.12 Shared Services Provided by GSWC to BVES Post-Closing. GSWC's General Office provides certain services to the Bear Valley Electric Service division of GSWC in accordance with the common cost allocation adopted by the CPUC. Those services currently include the cost centers for Executive Services, Accounting and Finance, Tax, Internal Audit, Risk Services, Information Technology, Human Capital Management, Procurement Services, Regulatory Affairs, Cash Processing, and CIS Billing and Collections. On and following the Closing Date, GSWC shall continue to provide such services to BVES as well as any future services that may be approved by the CPUC. The Parties agree and acknowledge that, in future regulatory proceedings, the CPUC could change the services permitted to be made between GSWC and BVES or the allocation of common costs for such services, in which event, GSWC shall only provide those services that are permitted by the CPUC and in accordance with the common cost allocation adopted pursuant to such proceedings.

ARTICLE VI
CONDITIONS TO CLOSING

6.1 Conditions Precedent to Closing. The respective obligations of each Party to consummate the Transactions are subject to the satisfaction of the following conditions as of the Closing Date:

(a) Representations and Warranties. All representations and warranties of each Party contained in this Agreement shall have been true and correct, in all material respects, when made and shall be true and correct, in all material respects, as of the Closing Date.

(b) Performance of Covenants. Each Party shall have performed in all material respects all covenants and agreements required to be performed by it prior to the Closing.

(c) Regulatory Approvals. The Parties shall have obtained all regulatory consents necessary to consummate the Transactions, without the imposition of any conditions that any Party reasonably determines to be unsatisfactory, including the final order of the CPUC authorizing the Transactions and the approval of FERC.

(d) Third Party Consents. GSWC shall have obtained all third-party consents necessary to consummate the Transactions, without the imposition of any conditions that any Party reasonably determines to be unsatisfactory.

(e) Permits. BVES shall have obtained all permits necessary to operate the Electric Utility Business, without the imposition of any conditions that any Party reasonably determines to be unsatisfactory.

(f) County Franchise Agreement. BVES and the County shall have consented to the transfer of the Franchise Agreement by GSWC to BVES or BVES has otherwise obtained rights to, from time to time, construct, maintain and use all property that is used or useful in transmitting or distributing electricity in connection with the Electric Utility Business and that is located along, across, upon, over and under County highways, without the imposition of any conditions that any Party reasonably determines to be unsatisfactory.

(g) Board Approval of GSWC. The board of directors of GSWC shall have adopted all resolutions reasonably necessary to consummate the Transactions as contemplated in this Agreement, including resolutions by the board of directors of GSWC (i) permitting the participation of the employees of BVES in the Employee Benefit Plans, (ii) approving the contribution of the Contributed Assets and assignment of the Assumed Liabilities, (iii) approving the dividend of the Distributed Shares to Parent, and (iv) appointing two additional directors to serve on the board of directors of BVES, one of whom shall be an employee of the Bear Valley Electric Service division of GSWC and one of whom shall be an independent director that is neither an officer, director nor employee of Parent or any of its subsidiaries.

(h) Board Approval of BVES. The board of directors of BVES shall have adopted all resolutions reasonably necessary to consummate the Transactions as contemplated in this Agreement, including the adoption of a resolution by the sole director of BVES approving (i) the participation of the employees of BVES in the Employee Benefits Plans, and (ii) the issuance of the Issued Shares and the assumption of the Assumed Liabilities in exchange for the contribution of the Contributed Assets.

(i) Board Approval of Parent. The board of directors of Parent shall have adopted all resolutions reasonably necessary to consummate the Transactions as contemplated in this Agreement.

(j) Dividend Capacity. GSWC shall, under applicable Law, have the dividend capacity to complete the spin-off transaction contemplated by Section 2.5 (*Spin-Off*).

ARTICLE VII
MISCELLANEOUS

7.1 Further Assurances. On the terms and subject to the conditions of this Agreement, each Party will use commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable under applicable Laws to consummate the Transactions and to carry out the purposes of this Agreement.

7.2 Expenses. The Parties shall allocate common costs among them and their affiliate companies utilizing the general office allocation percentages adopted by the CPUC.

7.3 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and performed in such State without giving effect to the choice of law principles of such State that would require or permit the application of the laws of another jurisdiction.

7.4 Submission to Jurisdiction; Consent to Service of Process; WAIVER OF JURY TRIAL.

(a) The Parties hereto hereby irrevocably submit to the non-exclusive jurisdiction of any federal or state court located within the city or county of Los Angeles in the State of California over any dispute arising out of or relating to this Agreement or any of the Transactions, and each Party hereby irrevocably agrees that all claims in respect of such dispute or any suit, action proceeding related thereto may be heard and determined in such courts. The Parties hereby irrevocably waive, to the fullest extent permitted by applicable Law, any objection which they may now or hereafter have to the laying of venue of any such dispute brought in such court or any defense of inconvenient forum for the maintenance of such dispute. Each of the Parties hereto agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(b) THE PARTIES HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER ARISING IN CONTRACT, TORT OR OTHERWISE. THE PARTIES AGREE THAT ANY OF THEM MAY FILE A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED-FOR AGREEMENT AMONG THE PARTIES IRREVOCABLY TO WAIVE TRIAL BY JURY AND THAT ANY ACTION OR PROCEEDING WHATSOEVER AMONG THEM RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY SHALL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

7.5 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable Law. If any clause or provision of this Agreement is determined to be illegal, invalid or unenforceable under any present or future Law, the remainder of this Agreement shall not be affected thereby. Upon such determination that any term or other provision is invalid, illegal, or unenforceable, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner in order that the Transactions are consummated as originally contemplated to the greatest extent possible.

7.6 Assignment; Successors and Assigns. No Party may assign its rights or delegate its duties hereunder without the prior written consent of the other Parties. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

7.7 Entire Agreement and Amendment. This Agreement (including the exhibits hereto) contains the entire agreement of the Parties with respect to the Transactions and supersedes all other prior written or verbal agreements concerning the subject matter hereof. This Agreement may not be amended, modified or changed in any respect except by an agreement in writing signed by the Parties.

7.8 Waiver. Except as otherwise provided in this Agreement, the failure of any Party to comply with any provision or condition of this Agreement may be waived by the Party entitled to the benefit thereof only by a written instrument signed by the Party granting such waiver. No failure on the part of any Party to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of such right, power or remedy by such Party preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

7.9 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same document.

7.10 Electronic Delivery. This Agreement and any signed agreement or instrument entered into in connection with this Agreement, and any amendments hereto or thereto, to the extent delivered by means of a facsimile machine or electronic mail in portable document format or similar format (any such delivery, an "Electronic Delivery"), shall be treated in all manners and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such agreement or instrument, each other party hereto or thereto shall re-execute original forms thereof and deliver them (by means other than Electronic Delivery) to all other parties. No party hereto or to any such agreement or instrument shall raise (a) the use of Electronic Delivery to deliver a signature or (b) the fact that any signature or agreement or instrument was transmitted or communicated through the use of Electronic Delivery, as a defense to the formation of a contract, and each such party forever waives any such defense, except to the extent such defense related to lack of authenticity.

7.11 No Third-Party Beneficiaries. This Agreement is solely between the Parties and no person not a Party to this Agreement shall have any rights or privileges hereunder.

7.12 Section Headings. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of any provision of this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered hereto as of the date first written above.

GOLDEN STATE WATER COMPANY

By: /s/ Eva G. Tang

Name: Eva G. Tang
Title: Senior Vice President, Chief Financial Officer and Secretary

BEAR VALLEY ELECTRIC SERVICE, INC.

By: /s/ Gladys M. Farrow

Name: Gladys M. Farrow
Title: Treasurer and Secretary

AMERICAN STATES WATER COMPANY

By: /s/ Robert J. Sprowls

Name: Robert J. Sprowls
Title: President and Chief Executive Officer

EXHIBIT A

Contributed Assets

[To be updated at Closing]

1. Cash and cash equivalents held at Union Bank in the name of Golden State Water Company DBA Bear Valley Electric Service.

2. All accounts receivable, unbilled receivable and prepaid expenses related to the Electric Utility Business and Customers.

3. Materials and supplies used or useful by GSWC in the Electric Utility Business.

4. All regulatory accounts and mechanisms in place, including balancing and memorandum accounts, applicable to the Electric Utility Business and Customers to the extent they are positive balances, which represent under-collections to be recovered from Customers.

5. All property, plant and equipment (net of accumulated depreciation) and construction work in progress used in the Electric Utility Business.

6. Franchise Agreement adopted by San Bernardino County as Ordinance No. 1642.

7. Collective bargaining agreement with the International Brotherhood of Electrical Workers.

8. All management, consulting, independent contractor and advisory agreements pertaining to the Electrical Utility Business.

9. All construction contracts pertaining to the Electric Utility Business.

10. All repair and maintenance contracts pertaining to the Electric Utility Business.

11. All service contracts pertaining to the Electric Utility Business.

12. All information systems agreements pertaining to the Electric Utility Business not managed by the GSWC Corporate IT department.

13. All other contracts pertaining to the Electric Utility Business.

14. All material agreements pertaining to the Electric Utility Business.

15. All rights, claims and causes of action against third parties resulting from or relating to the operation of the Electric Utility Business or the ownership of the Contributed Assets, including any causes of action arising under warranties from vendors, service providers and other third parties.

16. All governmental licenses, permits, authorizations, consents or approvals obtained by GSWC affecting or relating to the Electric Utility Business or the Contributed Assets to the extent transferable.

17. All business records, regardless of the medium of storage relating to the Contributed Assets or the Electric Utility Business, including all schematics, drawings, customer data, statistics, promotional graphics accounting and financial information concerning the Contributed Assets or the Electric Utility Business.

18. GSWC's right to use the name "Bear Valley Electric Service" and all derivations thereof.

19. All intangible assets used or useful in the Electric Utility Business.

EXHIBIT B

Excluded Assets

[To be updated at Closing]

1. All assets to be used by GSWC in providing shared services to BVES, including all assets of GSWC to be used in providing the shared services to BVES described in Section 5.12 of the Agreement.

EXHIBIT C

Assumed Liabilities

[To be updated at Closing]

1. Any Liabilities for salary, bonus, vacation pay, severance payments, workers compensation, damages for wrongful dismissal or other compensation or benefits relating to the Electric Utility Business, other than accrued pension and other post-retirement benefits pertaining to employees of the Electric Utility Business.

2. Any Liability related to any lawsuit or threatened lawsuit or claim (including any claim for non-performance under any contract) based upon actions, omissions or events relating to the Electric Utility Business.

3. Any Liability, ongoing duty or obligation, or any claim for liability or performance of any ongoing duty or obligation under any contracts pertaining to the Electric Utility Business, other than contracts which are Excluded Assets.

4. Accounts payable for services rendered to the Electric Utility Business.

5. Accrued property and local taxes, and other expenses.

6. Liabilities from insurance and indemnity claims to the extent related to the Electric Utility Business or the Contributed Assets.

7. Unrealized loss on purchased power contracts.

8. Contributions in Aid of Construction for electric utility infrastructure.

9. Advances for construction from developer agreements with refund obligations associated with electric utility infrastructure.

10. Deposits held for Customers of the Electric Utility Business.

11. All regulatory accounts and mechanisms in place, including balancing and memorandum accounts, applicable to the Electric Utility Business and Customers to the extent they are negative balances, which represent over-collections to be refunded to Customers.

12. Deferred income taxes pertaining to the Electric Utility Business.

13. Unamortized investment tax credits pertaining to the Electric Utility Business.

14. All other Liabilities pertaining to the Electric Utility Business.

EXHIBIT D

Excluded Liabilities

[To be updated at Closing]

1. All liabilities assumed by GSWC in providing the shared services to BVES, including all liabilities of GSWC to be used in providing the shared services to BVES described in Section 5.12 of the Agreement.

2. All outstanding long-term debt consisting primarily of notes and debentures, including accrued interest associated with such instruments at Closing.

3. Outstanding intercompany borrowings payable to Parent.

EXHIBIT C

PRESENTATION OF PRO FORMA BALANCE SHEETS
AS OF SEPTEMBER 30, 2018

Exhibit C
Consolidated Golden State Water Company and BVES Division
Presentation of Pro Forma Balance Sheets
As of September 30, 2018
(Unaudited)

(in thousands)	**Consolidated Golden State Water Company**	**Remove Water Services(1)**	**Pro Forma as of September 30, 2018 BVES Division**
Utility Plant, at cost			
Water	$1,620,773	($1,620,773)	
Electric	105,457	-	**$105,457**
Less - Accumulated depreciation	(546,310)	500,200	**(46,110)**
Construction work in progress	69,270	(67,213)	**2,057**
Net utility plant	1,249,190	(1,187,786)	**61,404**
Other property and investments	24,290	(24,290)	**-**
Current Assets			
Cash and cash equivalents	153	(29)	**124**
Accounts receivable-customers, net of reserve	29,915	(27,967)	**1,948**
Unbilled receivable	19,987	(19,132)	**855**
Other accounts receivable, net	2,909	(2,838)	**71**
Materials and supplies, at average cost	4,674	(3,498)	**1,176**
Regulatory assets	22,130	(21,547)	**583**
Prepayments and other assets	5,796	(5,669)	**127**
	85,564	(80,680)	**4,884**
Other Assets			
Deferred income taxes	-	4,366	**4,366**
Other	5,685	(5,685)	**-**
	5,685	(1,319)	**4,366**
Total Assets	$1,364,729	($1,294,075)	**$70,654**
Capitalization			
Common shares, no par value, no stated value	$244,716	($244,716)	**-**
Earnings reinvested in the business	243,660	(198,270)	**45,390**
Total common shareholders' equity	488,376	(442,986)	**45,390**
Long-term debt	281,010	(281,010)	**-**
Total capitalization	769,386	(723,996)	**45,390**
Current Liabilities			
Intercompany borrowings from parent (AWR)	50,475	(50,475)	**-**
Long-term debt - current portion	40,320	(40,320)	**-**
Accounts payable	44,798	(42,649)	**2,149**
Accrued employee expenses	10,046	(9,688)	**358**
Accrued interest	6,298	(6,298)	**-**
Accrued taxes	10,197	(9,822)	**375**
Other	12,612	(10,946)	**1,666**
Total current liabilities	174,746	(170,198)	**4,548**
Other Credits			
Advances for construction	67,467	(66,427)	**1,040**
Contributions in aid of construction - net	123,686	(122,992)	**694**
Deferred income taxes	118,935	(107,824)	**11,111**
Regulatory liabilities	43,766	(35,952)	**7,814**
Accrued pension and other postretirement benefits	54,239	(54,239)	**-**
Other	12,504	(12,447)	**57**
Total other credits	420,597	(399,881)	**20,716**
Total Capitalization and Liabilities	$1,364,729	($1,294,075)	**$70,654**

(1) Removes assets and liabilities related to Golden State's Regulated Water Services. All of Golden State's outstanding short and long-term debt securities at the time the reorganization plan is implemented will remain at the Golden State level. Golden State is the legal entity that issued these obligations. Therefore, BVES NewCo is not assuming any of the existing short- or long-term debt obligations as part of this transaction. Upon approval of this Application by the Commission, BVES NewCo will put in place its own short-term borrowing arrangements. As requested in this Application, BVES NewCo will also have the abilily to obtain additional funds not to exceed $75 million from external sources through the issuance of long-term debt, or equity investments from its parent, AWR. See **Exhibit C-1.**

EXHIBIT C-1

CONSOLIDATED GSWC AND BVES DIVISION PRESENTATION OF PRO FORMA INDEBTEDNESS & CAPITALIZATION AS OF SEPTEMBER 30, 2018 AND BEAR VALLEY ELECTRIC SERVICE, INC. PRESENTATION OF INITIAL FORMATION & POST ACTIVITY PROJECTED AS OF DECEMBER 31, 2019

Exhibit C-1
Consolidated Golden State Water Company and BVES Division
Presentation of Pro Forma Indebtedness & Capitalization
As of September 30, 2018
and
BVES NewCo
Presentation of Initial Formation & Post Activity
Projected as of December 31, 2019
(Unaudited)

	Pro Forma as of September 30, 2018					BVES NewCo Activity		
(in thousands, except percentages)	Consolidated Golden State Water Company	Remove Water Services	Pro Forma Cap Structure of GSWC's BVES Division	Initial Capitalization Upon Formation of BVES NewCo (1)	Contribution of BVES Division's Net Assets to BVES NewCo (1)	Issuance of New Debt & Distribution of Capital (2)	Estimated Earnings Post Consumation of BVES NewCo (2)	BVES NewCo Projected as of December 31, 2019
Capitalization								
Common shares, no par value, no stated value (Paid-in-Capital)	$244,716	($244,716)	$0	$0.10	$45,390	($19,100)		**$26,290**
Earnings reinvested in the business	243,660	(198,270)	45,390		(45,390)		$6,800	**6,800**
Total common shareholders' equity	488,376	(442,986)	45,390	0.10	-	(19,100)	6,800	**33,090**
Long-term debt (including current portion)	321,330	(321,330)	-			25,000		**$25,000**
Total capitalization	$809,706	($764,316)	$45,390	$0.10	$0	$5,900	$6,800	**$58,090**
	Debt ratio	42%	0%					**43%**
	Equity ratio	58%	100%					**57%**
		100%	100%					**100%**

(1) As described in this Application, upon formation BVES NewCo will issued 10 shares of its common stock to Golden State for $100 in cash. As described in Section 3 of the Application, upon approval by the CPUC of the reorganization plan, BVES NewCo will then issue an additional amount of its common stock to Golden State in consideration for the contribution of the net assets of Golden State's Bear Valley Electric Division to BVES NewCo. Immediately following, Golden State will then distribute the common stock of BVES NewCo to its parent, AWR, which will result in AWR holding 100% of the shares of BVES NewCo.

(2) Once the reorganization plan is approved by the CPUC and BVES NewCo begins its operations on a stand-alone basis, BVES NewCo plans to issue long-term debt followed by a distribution of capital to its new parent, AWR. BVES NewCo's first issuance of long-term debt in the amount of $25 million and subsequent distribution of capital to AWR in the amount of $19.1 million will result in BVES NewCo achieving a capital structure of 43% debt and 57% equity, which is the pre-organization authorized capital structure for Golden State and its electric division, BVES. The table above also shows BVES NewCo's estimated net earnings post September 30, 2018 through December 31, 2019 to arrive at a projected capital structure for BVES NewCo by the end of 2019. See projected Statements of Cash Flow in **Exhibit F**.

EXHIBIT D

BEAR VALLEY ELECTRIC SERVICE, INC.
STATEMENT OF PROJECTED CAPITALIZATION RATIOS
& SCHEDULE OF SECURITY ISSUANCE

Exhibit D

BVES NewCo Statement of Projected Capitalization Ratios & Schedule of Security Issuance

(In Thousands, Except Percentage)

	BVES Division Pro Forma as of *September 30, 2018*	BVES NewCo. Projected* as of December 31, 2019 [2]	2020	2021	2022	2023	
Long Term Debt [1]	$ -	$ 25,000	$ 25,000	$ 37,500	$ 37,500	$ 50,000	
Common Equity [1]	45,390	33,090	33,980	48,630	50,660	66,180	
Total Capitalization	$ 45,390	$ 58,090	$ 58,980	$ 86,130	$ 88,160	$ 116,180	
							Average 2019 - 2023
Capital Ratio							
Debt	0.0%	43.0%	42.4%	43.5%	42.5%	43.0%	**42.9%**
Equity	100.0%	57.0%	57.6%	56.5%	57.5%	57.0%	**57.1%**
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	**100.0%**

* The information contained in this exhibit are based on current estimates, expectations and projections about future events and assumptions regarding these events at the time of filing this application. We are not able to predict all of the factors that may affect future results. Therefore, actual results may differ from those in our projections.

(1) Includes financing requested in this application and described below in the Schedule of Security Issuance.

(2) See **Exhibit C-1**.

	2019	2020	2021	2022	2023	2019 - 2023
Schedule of Security Issuance						
New Debt Issuance	$ 25,000		$ 12,500		$ 12,500	$ 50,000
New Equity Issuance	-		12,500		12,500	25,000
	25,000	-	25,000	-	25,000	75,000
Total Security Issuance	$ 25,000	$ -	$ 25,000	$ -	$ 25,000	$ 75,000

Total New Debt Issuances	$ 50,000
Total New Equity Issuances	25,000
	$ 75,000

EXHIBIT E

BEAR VALLEY ELECTRIC SERVICE, INC.
PROJECTED CAPITAL EXPENDITURES
FOR THE 5-YEARS 2019 – 2023

Exhibit E
BVES NewCo
Projected* Capital Expenditures
For the 5-Years 2019 - 2023
(in Thousands)

Description	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
Blanket capital projects (1)	$ 3,100	$ 3,100	$ 3,020	$ 3,000	$ 3,500	$ 15,720
Distribution capital improvements (1)	3,720	3,920	4,060	4,700	5,200	21,600
Transmission capital improvements (1)	-	1,600	-	-	2,100	3,700
Generation/Production capital improvements (1)	940	-	900	-	1,100	2,940
Automation of distribution GRID (2)	1,070	950	940	920	-	3,880
Safety and technical upgrades of Pineknot substation (2)	2,940	-	-	-	-	2,940
Bear Valley Solar Energy Project (3)	-	13,180	-	-	-	13,180
Other	270	270	-	-	500	1,040
TOTAL	**$ 12,040**	**$ 23,020**	**$ 8,920**	**$ 8,620**	**$ 12,400**	**$ 65,000**

* The information contained in this exhibit are based on current estimates, expectations and projections about future events and assumptions regarding these events at the time of filing this application. We are not able to predict all of the factors that may affect future results. Therefore, actual results may differ from those in our projections.

(1) On November 28, 2018, BVES Division filed a joint settlement with the CPUC's Public Advocates Office on the general electric rate case, which resolves all the issues in the case and authorizes BVES to invest in capital infrastructure over a 5-year rate cycle (2018 - 2022). In the settlement, the Settling Parties agree that BVES is authorized to construct these specific plant projects and the blanket plant projects. For 2023, it is assumed that similar recurring capital projects will continue.

(2) The Settling Parties agree that BVES may construct the Pineknot Substation and GRID Automation capital projects. The Settling Parties agreed that BVES Division is authorized to file Tier 1 Advice Letters to recover the costs associated with these two major plant additions projects.

(3) BVES is subject to the renewables portfolio standard (RPS) law, which requires meeting certain targets in the future of energy purchases from qualified renewable energy resources. BVES continues to assess various renewable energy opportunities to be in compliance with these requirements. This includes requesting authority to construct an 8MW solar facility.

EXHIBIT F

BEAR VALLEY ELECTRIC SERVICE, INC. PROJECTED STATEMENTS OF CASH FLOW

Exhibit F
BVES NewCo Projected Statements of Cash Flow
(in Thousands)

	Projected* for BVES NewCo					
	2019	**2020**	**2021**	**2022**	**2023**	**Total 2019 - 2023**
Cashflow from Operating Activities	$ 6,860	$ 7,140	$ 7,470	$ 7,840	$ 8,000	$ 37,310
Cashflow from Investing Activities						
Capital expenditures	$ (12,040)	$ (23,020)	$ (8,920)	$ (8,620)	$ (12,400)	$ (65,000)
Cashflow from Financing Activities						
Issuance of equity securities	-	-	12,500	-	12,500	25,000
Proceeds from issuance of long-term debt	25,000	-	12,500	-	12,500	50,000
Short-term borrowings (payments)	-	18,420	(18,420)	5,450	(5,450)	-
Distribution of capital / dividends paid	(19,130)	(4,340)	(4,540)	(5,260)	(5,430)	(38,700)
Total Cashflow from Financing Activities	$ 5,870	$ 14,080	$ 2,040	$ 190	$ 14,120	$ 36,300
Total net cash provided	690	(1,800)	590	(590)	9,720	
Cash and Cash Equivalents, Beginning of Period	1,110	1,800	-	590	-	
Cash and Cash Equivalents, End of Period	$ 1,800	$ -	$ 590	$ -	$ 9,720	

* The information contained in this exhibit are based on current estimates, expectations and projections about future events and assumptions regarding these events at the time of filing this application. We are not able to predict all of the factors that may affect future results. Therefore, actual results may differ from those in our projections.

EXHIBIT G

GOLDEN STATE WATER COMPANY'S RESTATED ARTICLES OF INCORPORATION, AS AMENDED ON SEPTEMBER 16, 2005

A0634227

ENDORSED - FILED
In the office of the Secretary of State
of the State of California

SEP 3 0 2005

CERTIFICATE OF AMENDMENT
OF
RESTATED ARTICLES OF INCORPORATION
OF
SOUTHERN CALIFORNIA WATER COMPANY,
a California corporation

Floyd E. Wicks and Robert J. Sprowls certify that:

1. They are the duly elected and acting President and Chief Executive Officer and Chief Financial Officer, Senior Vice President-Finance and Secretary, respectively, of the corporation named above.

2. The Restated Articles of Incorporation of the corporation are amended by amending Article One to read as follows:

NAME

One: The name of the corporation is Golden State Water Company.

3. The above amendment has been approved by the Board of Directors of the corporation.

4. The above amendment was approved by the vote of the sole shareholder of the corporation in accordance with Section 902 of the California Corporations Code; the total number of outstanding shares of each class entitled to vote with respect to the amendment was 122 Common Shares, all of which voted in favor of the above amendment.

We further declare under penalty of perjury under the law of the State of California that the matters set forth in this certificate are true and correct of our own knowledge:

September 16, 2005

Floyd E. Wicks
Floyd E. Wicks
President and Chief Executive Officer

Robert J. Sprowls
Robert J. Sprowls
Chief Financial Officer, Senior Vice President-Finance and Secretary

OFFICE OF THE SECRETARY OF STATE

LA1:1082458.1

EXHIBIT H

GOLDEN STATE WATER COMPANY'S BYLAWS

Exhibit H

As amended through May 10, 2011

Exhibit 3.2

BYLAWS

for the regulation, except
as otherwise provided by statute or
its Restated Articles of Incorporation,
of
Golden State Water Company
(a California corporation)

ARTICLE I. Offices.

Section 1. PRINCIPAL EXECUTIVE OFFICE. The principal executive office of the corporation shall be fixed and located at such place as the Board of Directors (herein called the "Board") shall determine. The Board is hereby granted full power and authority to change said principal executive office from one location to another.

Section 2. OTHER OFFICES. Branch or subordinate offices may at any time be established by the Board at any place or places.

ARTICLE II. Meetings of Shareholders.

Section 1. PLACE OF MEETINGS. Meetings of shareholders shall be held either at the principal executive office of the corporation or at any other place within or without the State of California which may be designated either by the Board or by the written consent of all persons entitled to vote thereat, given either before or after the meeting and filed with the Secretary.

Section 2. ANNUAL MEETINGS. The annual meetings of shareholders shall be held on such date and at such time as may be fixed by the Board.

Section 3. SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose or purposes whatsoever, may be called at any time by the Board, the Chairman of the Board, the President, or by the holders of shares entitled to cast not less than ten percent of the votes at such meeting.

ARTICLE III. Directors.

Section 1. POWERS. Subject to limitations of the Articles, these Bylaws and of the California General Corporation Law as to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board.

Section 2. NUMBER OF DIRECTORS. The authorized number of directors shall be not less than six or more than eleven until changed by amendment of the Articles or by a

Bylaw duly adopted by the shareholders amending this Section 2. The exact number of directors shall be fixed, within the limits specified, by the Board from time to time in a resolution adopted by a majority of the directors. The exact number of directors shall be ten until changed as provided in this Section 2.

ARTICLE IV. Officers.

Section 1. OFFICERS. The officers of the corporation shall be a President, a Secretary, and a Chief Financial Officer. The corporation may also have, at the discretion of the Board, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as the Board may from time to time determine.

Section 2. PRESIDENT. The President shall be the general manager and chief executive officer of the corporation and has, subject to the control of the Board, general supervision, direction and control of the business and officers of the corporation. The President shall preside at all meetings of the shareholders and at all meetings of the Board. The President has the general powers and duties of management usually vested in the office of president and general manager of a corporation and has such other powers and duties as may be prescribed by the Board.

Section 3. SECRETARY. The Secretary shall keep or cause to be kept, at the principal executive office or such other place as the Board may order, a book of minutes of all meetings of the shareholders, the Board and its committees, and a share register or a duplicate share register.

The Secretary shall give, or cause to be given, notice of all the meetings of the shareholders and of the Board and any committees thereof required by the Bylaws or by law to be given, shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board.

Section 4. CHIEF FINANCIAL OFFICER. The Chief Financial Officer is the chief financial officer of the corporation and shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the corporation, and shall send or cause to be sent to the shareholders of the corporation such financial statements and reports as are by law or these Bylaws required to be sent to them. The books of account shall at all times be open to inspection by any director.

The Chief Financial Officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the Board. The Chief Financial Officer shall disburse the funds of the corporation as may be ordered by the Board, shall render to the President and the directors, whenever they request it, an account of all transactions as Treasurer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board.

ARTICLE V. <u>Other Provisions</u>.

Section 1. ANNUAL REPORT TO SHAREHOLDERS. The annual report to shareholders referred to in Section 1501 of the California General Corporation Law is expressly waived, but nothing herein shall be interpreted as prohibiting the Board from issuing annual or other periodic reports to shareholders.

Section 2. CONSTRUCTION AND DEFINITIONS. Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the General Provisions of the California Corporations Code and in the California General Corporation Law shall govern the construction of these Bylaws.

ARTICLE VI. <u>Amendments</u>.

These Bylaws may be amended or repealed either by approval of the outstanding shares (as defined in Section 152 of the California General Corporation Law) or by the approval of the Board; provided, however, that after the issuance of shares, a bylaw specifying or changing a fixed number of directors or the maximum or minimum number or changing from a fixed to a variable number of directors or vice versa may be adopted only by approval of the outstanding shares, and a bylaw reducing the fixed number or the minimum number of directors to a number less than five shall be subject to the provisions of Section 212(a) of the California General Corporation Law.

ARTICLE VII. <u>Indemnification</u>.

Section 1. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

(a) Each person who was or is a party or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the corporation, or of any predecessor corporation, or is or was a director or officer who is or was serving at the request of the corporation as a director, officer, employee or other agent of another corporation, a partnership, joint venture, trust or other enterprise (including service with respect to corporation-sponsored employee benefit plans), whether the basis of such proceeding is alleged action or inaction in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall, subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation to the fullest extent permissible under California law and the corporation's Articles, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) actually and reasonably incurred or suffered by such person in connection therewith; provided, however, that amounts paid in settlement of a proceeding shall be payable only if the settlement is approved in writing by the corporation. Such indemnification shall continue as to a person who has ceased to be a director or officer for acts performed while a director or officer and shall inure to the benefit of his or her heirs, executors and administrators. Notwithstanding the foregoing, the corporation shall indemnify any such person in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of the corporation. The right to indemnification conferred in this Article shall include the right to be paid by the corporation the expenses incurred in defending any proceeding in advance of final disposition to the fullest extent permitted by law, provided, however, that the payment under this Article of such expenses in advance of the final disposition of a proceedings shall be conditioned upon the delivery to the corporation of a written request for such advance and of an undertaking by or on behalf of the director or officer to repay all amounts so advanced if it shall be ultimately determined that such director or officer is not entitled to be indemnified.

(b) Notwithstanding the foregoing or any other provisions under this Article, the corporation shall not be liable under this Article to indemnify a director or officer against expenses, liabilities or losses incurred or suffered in connection with, or make any advances with respect to, any proceeding against a director or officer: (i) as to which the corporation is prohibited by applicable law from paying as an indemnity, (ii) with respect to expenses of defense or investigation, if such expenses were or are incurred without the corporation's consent (which consent may not be unreasonably withheld), (iii) for which payment is actually made to the director or officer under a valid and collectible insurance policy maintained by the corporation, except in respect of any excess beyond the amount of payment under such insurance, (iv) for which payment is actually made to the director or officer under an indemnity by the corporation otherwise than pursuant to this Bylaw Article, except in respect of any excess beyond the amount of payment under such indemnity, (v) based upon or attributable to the director or officer gaining in fact any personal profit or advantage to which he or she was not legally entitled, (vi) for an accounting of profits made from the purchase or sale by the director or officer of securities of the corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law, or (vii) based upon acts or omissions involving intentional misconduct or a knowing and culpable violation of law.

Section 2. INDEMNIFICATION OF EMPLOYEES AND AGENTS. A person who was or is a party or is threatened to be made a party to or is involved in any proceeding by reason of the fact that he or she is or was an employee or agent of the corporation or is or was an employee or agent of the corporation who is or was serving at the request of the corporation as an employee or agent of another enterprise, including service with respect to corporation-sponsored employee benefits plans, whether the basis of such action is alleged action or inaction in an official capacity or in any other capacity while serving as an employee or agent, may, upon appropriate action by the corporation and subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation up to the fullest extent permitted by California law and the corporation's Articles, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person in connection therewith.

Section 3. RIGHT OF DIRECTORS AND OFFICERS TO BRING SUIT. If a claim under Section 1 of this Article is not paid by the corporation or on its behalf within 90 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim, and, if successful in whole or in part, the claimant also shall be entitled to be paid the expense of prosecuting such claim.

Section 4. SUCCESSFUL DEFENSE. Notwithstanding any other provision of this Article, to the extent that a director or officer has been successful on the merits or otherwise (including the dismissal of a proceeding without prejudice or the settlement with the written consent of the corporation of a proceeding without admission of liability) in defense of any proceeding referred to in Section 1 or in defense of any claim, issue or matter therein, such director or officer shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

Section 5. INDEMNITY AGREEMENTS. The corporation may enter into agreements with any director, officer, employee or agent of the corporation providing for indemnification to the fullest extent permissible under applicable law and the corporation's Articles.

Section 6. SUBROGATION. In the event of payment by the corporation of a claim under Section 1 of this Article, the corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the indemnified person, who shall execute all papers required and shall do everything that may be necessary or appropriate to secure such rights, including the execution of such documents necessary or appropriate to enable the corporation effectively to bring suit to enforce such rights.

Section 7. NON-EXCLUSIVITY RIGHTS. The right to indemnification provided by this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

Section 8. INSURANCE. The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, a partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under California law.

Section 9. EXPENSES AS A WITNESS. To the extent that any director, officer or employee of the corporation is by reason of such position a witness in any action, suit or proceeding, he or she will be indemnified against all costs and expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith.

Section 10. NONAPPLICABILITY TO FIDUCIARIES OF EMPLOYEE BENEFIT PLANS. This article does not apply to any proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the corporation. The corporation shall have power to indemnify such trustee, investment manager or other fiduciary to the extent permitted by subdivision (f) of Section 207 of the California General Corporation Law.

Section 11. SEPARABILITY. Each and every paragraph, sentence, term and provision of this Article is separate and distinct so that if any paragraph, sentence, term or provision shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Article may be modified by a court of competent jurisdiction to preserve its validity and to provide the claimant with, subject to the limitations set forth in this Article and any agreement between the corporation and the claimant, the broadest possible indemnification permitted under applicable law.

Section 12. EFFECT OF REPEAL OR MODIFICATION. Any repeal or modification of this Article shall not adversely affect any right of indemnification of a director, officer, employee or agent of the corporation existing at the time of such repeal or modification with respect to any action or omission occurring prior to such repeal or modification.

EXHIBIT I

GOLDEN STATE WATER COMPANY'S LATEST AVAILABLE BALANCE SHEET AND INCOME STATEMENT (FORM 10-Q)

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, 2018

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 001-14431

American States Water Company

(Exact Name of Registrant as Specified in Its Charter)

California	**95-4676679**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA	**91773-1212**
(Address of Principal Executive Offices)	(Zip Code)

(909) 394-3600

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Commission file number 001-12008

Golden State Water Company

(Exact Name of Registrant as Specified in Its Charter)

California	**95-1243678**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA	**91773-1212**
(Address of Principal Executive Offices)	(Zip Code)

(909) 394-3600

(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 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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

American States Water Company	Yes ☒ No ☐
Golden State Water Company	Yes ☒ No ☐

Indicate by check mark whether 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 (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files).

American States Water Company	Yes ☒ No ☐
Golden State Water Company	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 definition of "large accelerated filer", "accelerated filer" and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

American States Water Company

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

Golden State Water Company

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

American States Water Company	Yes ☐ No☒
Golden State Water Company	Yes ☐ No☒

As of November 2, 2018, the number of Common Shares outstanding of American States Water Company was 36,745,039 shares. As of November 2, 2018, all of the 146 outstanding Common Shares of Golden State Water Company were owned by American States Water Company. Golden State Water Company meets the conditions set forth in General Instruction (H)(1)(a) and (b) of Form 10-Q and is therefore filing this Form, in part, with the reduced disclosure format for Golden State Water Company.

PART I

Item 1. Financial Statements

General

The basic financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments consisting of normal recurring items and estimates necessary for a fair statement of results for the interim period have been made.

It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto in the latest Annual Report on Form 10-K of American States Water Company and its wholly owned subsidiary, Golden State Water Company.

Filing Format

American States Water Company (“AWR”) is the parent company of Golden State Water Company (“GSWC”) and American States Utility Services, Inc. and its subsidiaries ("ASUS").

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: AWR and GSWC. For more information, please see Note 1 of the Notes to Consolidated Financial Statements and the heading entitled "General" in "Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations." References in this report to “Registrant” are to AWR and GSWC collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report other than with respect to itself.

Forward-Looking Information

This Form 10-Q and the documents incorporated herein contain forward-looking statements intended to qualify for the “safe harbor” from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current estimates, expectations and projections about future events and assumptions regarding these events and include statements regarding management’s goals, beliefs, plans or current expectations, taking into account the information currently available to management. Forward-looking statements are not statements of historical facts. For example, when we use words such as “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend,” “may” and other words that convey uncertainty of future events or outcomes, we are making forward-looking statements. We are not able to predict all the factors that may affect future results. We caution you that any forward-looking statements made by us are not guarantees of future performance and the actual results may differ materially from those in our forward-looking statements. Some of the factors that could cause future results to differ materially from those expressed or implied by our forward-looking statements or from historical results, include, but are not limited to:

- the outcome of pending and future regulatory, legislative or other proceedings, investigations or audits, including decisions in GSWC's general rate cases and the results of independent audits of GSWC's construction contracting procurement practices or other independent audits of our costs;
- changes in the policies and procedures of the California Public Utilities Commission ("CPUC");
- timeliness of CPUC action on GSWC rates;
- availability of GSWC's water supplies, which may be adversely affected by increases in the frequency and duration of droughts, changes in weather patterns, contamination, and court decisions or other governmental actions restricting the use of water from the Colorado River, the California State Water Project, and/or pumping of groundwater;

- liabilities of GSWC associated with the inherent risks of damage to private property and injuries to employees and the public if our or their property should come into contact with electrical current or equipment, including through downed power lines or equipment malfunctions;

- wildfires, which may become more common as a result of climate change in GSWC's electric division's service territory, as well as court decisions and regulatory actions that may affect our ability to recover the costs associated with such events or the defense or payment of resulting claims;

- the breakdown or failure of equipment at GSWC's electric division that can cause fires and unplanned electric outages, and whether GSWC will be subject to investigations, penalties, liabilities to customers or other third parties or other costs in connection with such events;

- the impact of storms, high winds, earthquakes, floods, mudslides, drought, wildfires and similar natural disasters, or acts of terrorism or vandalism, that affect customer demand, that damage or disrupt facilities, operations or information technology systems owned by us, our customers or third parties on whom we rely or that damage the property of our customers or other third parties or cause bodily injury resulting in liabilities that we may be unable to recover from insurance, other third parties and/or the U.S. government or that the CPUC or the courts do not permit us to recover from ratepayers;

- the impact on water utility operations during high fire threat conditions as a result of the Public Safety Power Shutdown (PSPS) program authorized by the CPUC and implemented by California regulated electric companies, including Southern California Edison and Pacific Gas and Electric, which serve GSWC facilities throughout the state;

- increases in the cost of obtaining insurance or in uninsured losses that may not be recovered in rates, or under our contracts with the U.S. government, including increases due to difficulties in obtaining insurance for certain risks, such as wildfires and earthquakes in California;

- increases in costs to reduce the risks associated with the increasing frequency of severe weather, including to improve the resiliency and reliability of our water production and delivery facilities and systems, and our electric transmission and distribution lines;

- increases in service disruptions if severe weather becomes more frequent as predicted by some scientists who study climate change;

- our ability to efficiently manage GSWC capital expenditures and operating and maintenance expenses within CPUC authorized levels and timely recover our costs through rates;

- the impact of opposition to GSWC rate increases on our ability to recover our costs through rates, including costs associated with construction and costs associated with damages to our property and that of others and injuries to persons arising out of more extreme weather events;

- the impact of opposition by GSWC customers to conservation rate design, including more stringent water-use restrictions if drought in California persists due to climate change, as well as potential future restrictions on water use mandated in California, which decreases adopted usage and increases customer rates;

- the impact of condemnation actions on future GSWC revenues and other aspects of our business if we do not receive adequate compensation for the assets taken, or recovery of all charges associated with the condemnation of such assets, as well as the impact on future revenues if we are no longer entitled to any portion of the revenues generated from such assets;

- our ability to forecast the costs of maintaining GSWC’s aging water and electric infrastructure;

- our ability to recover increases in permitting costs and costs associated with negotiating and complying with the terms of our franchise agreements with cities and counties and other demands made upon us by the cities and counties in which GSWC operates;

- changes in accounting valuations and estimates, including changes resulting from our assessment of anticipated recovery of GSWC's regulatory assets, settlement of liabilities and revenues subject to refund or regulatory disallowances and the timing of such recovery, and the amounts set aside for uncollectible accounts receivable, inventory obsolescence, pension and post-retirement liabilities, taxes and uninsured losses and claims, including general liability and workers' compensation claims;

- changes in environmental laws, health and safety laws and water and recycled water quality requirements and increases in costs associated with complying with these laws and requirements, including costs associated with GSWC's upgrading and building new water treatment plants, GSWC's disposing of residuals from our water treatment plants, handling and storing hazardous chemicals, upgrading electrical equipment to make it more resistant to extreme weather events, removal of vegetation near power lines, compliance monitoring activities and GSWC's securing alternative water supplies when necessary;

- our ability to obtain adequate, reliable and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our water and wastewater operations;

- our ability to attract, retain, train, motivate, develop and transition key employees;

- our ability to recover the costs associated with any contamination of GSWC's groundwater supplies from parties responsible for the contamination or through the ratemaking process, and the time and expense incurred by us in obtaining recovery of such costs;

- adequacy of GSWC's electric division's power supplies and the extent to which we can manage and respond to the volatility of electricity and natural gas prices;

- GSWC's electric division's ability to comply with the CPUC's renewable energy procurement requirements;

- changes in GSWC's long-term customer demand due to changes in customer usage patterns as a result of conservation efforts, regulatory changes affecting demand such as mandatory restrictions on water use, new landscaping or irrigation requirements, recycling of water by customers or purchase of recycled water supplied by other parties, unanticipated population growth or decline, changes in climate conditions, general economic and financial market conditions and cost increases, which may impact our long-term operating revenues if we are unable to secure rate increases in an amount sufficient to offset reduced demand;

- changes in accounting treatment for regulated utilities;

- effects of changes in or interpretations of tax laws, rates or policies;

- changes in estimates used in ASUS's cost-to-cost method for revenue recognition of certain construction activities;

- termination, in whole or in part, of one or more of ASUS's military utility privatization contracts to provide water and/or wastewater services at military bases for the convenience of the U.S. government or for default;

- suspension or debarment of ASUS for a period of time from contracting with the government due to violations of laws or regulations in connection with military utility privatization activities;

- delays by the U.S. government in making timely payments to ASUS for water and/or wastewater services or construction activities at military bases because of fiscal uncertainties over the funding of the U.S. government or otherwise;

- delays in ASUS obtaining economic price or equitable adjustments to our prices on one or more of our contracts to provide water and/or wastewater services at military bases;

- disallowance of costs on any of ASUS's contracts to provide water and/or wastewater services at military bases because of audits, cost reviews or investigations by contracting agencies;

- inaccurate assumptions used by ASUS in preparing bids in our contracted services business;

- failure of wastewater systems that ASUS operates on military bases resulting in untreated wastewater or contaminants spilling into nearby properties, streams or rivers, the likelihood of which could increase from climate-change induced flooding and rainfall events;

- failure to comply with the terms of our military privatization contracts;

- failure of any of our subcontractors to perform services for ASUS in accordance with the terms of our military privatization contracts;

- competition for new military privatization contracts;

- issues with the implementation, maintenance or upgrading of our information technology systems;

- general economic conditions which may impact our ability to recover infrastructure investments and operating costs from customers;

- explosions, fires, accidents, mechanical breakdowns, the disruption of information technology and telecommunication systems, human error and similar events that may occur while operating and maintaining water and electric systems in California or operating and maintaining water and wastewater systems on military bases under varying geographic conditions;

- potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption due to a cyber-attack or other cyber incident;

- restrictive covenants in our debt instruments or changes to our credit ratings on current or future debt that may increase our financing costs or affect our ability to borrow or make payments on our debt; and

- our ability to access capital markets and other sources of credit in a timely manner on acceptable terms.

Please consider our forward-looking statements in light of these risks (which are more fully disclosed in our 2017 Annual Report on Form 10-K) as you read this Form 10-Q. We qualify all our forward-looking statements by these cautionary statements.

(in thousands)	September 30, 2018	December 31, 2017
Property, Plant and Equipment		
Regulated utility plant, at cost	$ 1,795,500	$ 1,722,421
Non-utility property, at cost	23,759	15,941
Total	1,819,259	1,738,362
Less - Accumulated depreciation	(556,344)	(533,370)
Net property, plant and equipment	1,262,915	1,204,992
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	26,386	24,070
Total other property and investments	27,502	25,186
Current Assets		
Cash and cash equivalents	1,976	214
Accounts receivable — customers (less allowance for doubtful accounts of $844 in 2018 and $806 in 2017)	29,915	26,127
Unbilled receivable	25,215	26,411
Receivable from the U.S. government	21,095	3,725
Other accounts receivable (less allowance for doubtful accounts of $59 in 2018 and $235 in 2017)	2,411	8,251
Income taxes receivable	730	4,737
Materials and supplies, at average cost	5,622	4,795
Regulatory assets — current	22,130	34,220
Prepayments and other current assets	6,915	5,596
Contract assets (Note 2)	18,889	—
Costs and estimated earnings in excess of billings on contracts (Note 2)	—	41,387
Total current assets	134,898	155,463
Regulatory and Other Assets		
Receivable from the U.S. government (Note 2)	33,873	—
Contract assets (Note 2)	154	—
Costs and estimated earnings in excess of billings on contracts (Note 2)	—	25,426
Other	5,700	5,667
Total regulatory and other assets	39,727	31,093
Total Assets	$ 1,465,042	$ 1,416,734

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands)	September 30, 2018	December 31, 2017
Capitalization		
Common shares, no par value		
Authorized: 60,000,000 shares		
Outstanding: 36,745,039 shares in 2018 and 36,680,794 shares in 2017	$ 253,251	$ 250,124
Earnings reinvested in the business	300,910	279,821
Total common shareholders' equity	554,161	529,945
Long-term debt	281,010	321,039
Total capitalization	835,171	850,984
Current Liabilities		
Notes payable to bank	—	59,000
Long-term debt — current	40,320	324
Accounts payable	50,448	50,978
Income taxes payable	1,049	225
Accrued other taxes	10,311	7,344
Accrued employee expenses	11,633	12,969
Accrued interest	6,560	3,861
Unrealized loss on derivative contracts	1,143	2,941
Contract liabilities (Note 2)	8,942	3,911
Other	12,780	15,109
Total current liabilities	143,186	156,662
Other Credits		
Notes payable to bank	70,000	—
Advances for construction	67,467	67,465
Contributions in aid of construction — net	123,686	123,602
Deferred income taxes	114,925	115,703
Regulatory liabilities	43,766	32,178
Unamortized investment tax credits	1,384	1,436
Accrued pension and other postretirement benefits	54,239	57,695
Other	11,218	11,009
Total other credits	486,685	409,088
Commitments and Contingencies (Note 9)		
Total Capitalization and Liabilities	$ 1,465,042	$ 1,416,734

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands, except per share amounts)	Three Months Ended September 30, 2018	2017
Operating Revenues		
Water	$ 87,689	$ 91,919
Electric	7,875	7,994
Contracted services	28,618	24,505
Total operating revenues	124,182	124,418
Operating Expenses		
Water purchased	21,842	20,576
Power purchased for pumping	3,217	2,913
Groundwater production assessment	5,961	5,870
Power purchased for resale	2,647	2,439
Supply cost balancing accounts	(5,212)	(4,621)
Other operation	8,355	7,657
Administrative and general	21,570	21,823
Depreciation and amortization	10,118	9,854
Maintenance	3,422	3,222
Property and other taxes	4,692	4,475
ASUS construction	13,620	11,693
Gain on sale of assets	(25)	(17)
Total operating expenses	90,207	85,884
Operating Income	33,975	38,534
Other Income and Expenses		
Interest expense	(5,948)	(5,775)
Interest income	641	321
Other, net	1,223	434
Total other income and expenses, net	(4,084)	(5,020)
Income before income tax expense	29,891	33,514
Income tax expense	6,939	12,508
Net Income	$ 22,952	$ 21,006
Weighted Average Number of Common Shares Outstanding	36,737	36,659
Basic Earnings Per Common Share	$ 0.62	$ 0.57
Weighted Average Number of Diluted Shares	36,950	36,856
Fully Diluted Earnings Per Common Share	$ 0.62	$ 0.57
Dividends Declared Per Common Share	$ 0.275	$ 0.255

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands, except per share amounts)	Nine Months Ended September 30, 2018	2017
Operating Revenues		
Water	$ 228,834	$ 239,057
Electric	25,548	26,108
Contracted services	71,429	71,258
Total operating revenues	325,811	336,423
Operating Expenses		
Water purchased	52,057	50,619
Power purchased for pumping	7,141	6,667
Groundwater production assessment	15,146	14,176
Power purchased for resale	8,439	7,847
Supply cost balancing accounts	(11,110)	(11,663)
Other operation	24,125	21,989
Administrative and general	62,076	62,519
Depreciation and amortization	29,794	29,184
Maintenance	10,921	10,292
Property and other taxes	13,863	13,386
ASUS construction	35,168	34,589
Gain on sale of assets	(43)	(8,318)
Total operating expenses	247,577	231,287
Operating Income	78,234	105,136
Other Income and Expenses		
Interest expense	(17,919)	(17,606)
Interest income	1,813	1,200
Other, net	1,844	1,439
Total other income and expenses, net	(14,262)	(14,967)
Income before income tax expense	63,972	90,169
Income tax expense	13,890	33,670
Net Income	$ 50,082	$ 56,499
Weighted Average Number of Common Shares Outstanding	36,728	36,625
Basic Earnings Per Common Share	$ 1.36	$ 1.53
Weighted Average Number of Diluted Shares	36,935	36,813
Fully Diluted Earnings Per Common Share	$ 1.35	$ 1.53
Dividends Declared Per Common Share	$ 0.785	$ 0.739

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands)	Nine Months Ended September 30, 2018	2017
Cash Flows From Operating Activities:		
Net income	$ 50,082	$ 56,499
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,973	29,365
Provision for doubtful accounts	588	720
Deferred income taxes and investment tax credits	(2,732)	9,004
Stock-based compensation expense	3,648	2,303
Gain on sale of assets	(43)	(8,318)
Other — net	(566)	(802)
Changes in assets and liabilities:		
Accounts receivable — customers	(4,385)	(10,683)
Unbilled receivable	1,196	(1,442)
Other accounts receivable	5,849	(1,951)
Receivables from the U.S. government	(14,818)	1,355
Materials and supplies	(827)	(1,083)
Prepayments and other assets	(1,319)	(1,401)
Contract assets	11,345	—
Costs and estimated earnings in excess of billings on contracts	—	7,576
Regulatory assets	22,945	10,344
Accounts payable	(2,108)	5,337
Income taxes receivable/payable	4,831	23,657
Contract liabilities / Billings in excess of costs and estimated earnings on contracts	5,031	203
Accrued pension and other post-retirement benefits	(2,305)	(2,285)
Other liabilities	2,020	1,831
Net cash provided	108,405	120,229
Cash Flows From Investing Activities:		
Capital expenditures	(87,328)	(77,896)
Proceeds from sale of assets	63	34,324
Other investing activities	(1,492)	(1,299)
Net cash used	(88,757)	(44,871)
Cash Flows From Financing Activities:		
Proceeds from stock option exercises	348	884
Receipt of advances for and contributions in aid of construction	4,363	6,132
Refunds on advances for construction	(3,223)	(3,477)
Retirement or repayments of long-term debt	(326)	(320)
Net change in notes payable to banks	11,000	(44,000)
Dividends paid	(28,831)	(27,064)
Other financing activities	(1,217)	(1,288)
Net cash used	(17,886)	(69,133)
Net increase in cash and cash equivalents	1,762	6,225
Cash and cash equivalents, beginning of period	214	436
Cash and cash equivalents, end of period	$ 1,976	$ 6,661
Non-cash transactions:		
Accrued payables for investment in utility plant	$ 21,703	$ 21,978
Property installed by developers and conveyed	$ 1,968	$ 1,796

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands)	September 30, 2018	December 31, 2017
Utility Plant		
Utility plant, at cost	$ 1,795,500	$ 1,722,421
Less - Accumulated depreciation	(546,310)	(524,481)
Net utility plant	1,249,190	1,197,940
Other Property and Investments	24,290	21,956
Current Assets		
Cash and cash equivalents	153	214
Accounts receivable-customers (less allowance for doubtful accounts of $844 in 2018 and $806 in 2017)	29,915	26,127
Unbilled receivable	19,987	18,852
Other accounts receivable (less allowance for doubtful accounts of $59 in 2018 and 2017)	1,350	6,105
Income taxes receivable from Parent	1,559	6,590
Materials and supplies, at average cost	4,674	4,046
Regulatory assets — current	22,130	34,220
Prepayments and other current assets	5,796	5,090
Total current assets	85,564	101,244
Regulatory and Other Assets		
Other	5,685	5,683
Total regulatory and other assets	5,685	5,683
Total Assets	$ 1,364,729	$ 1,326,823

The accompanying notes are an integral part of these financial statements.

(in thousands)	September 30, 2018	December 31, 2017
Capitalization		
Common Shares, no par value:		
Authorized: 1,000 shares		
Outstanding: 146 shares in 2018 and 2017	$ 244,716	$ 242,181
Earnings reinvested in the business	243,660	232,193
Total common shareholder's equity	488,376	474,374
Long-term debt	281,010	321,039
Total capitalization	769,386	795,413
Current Liabilities		
Intercompany payable	50,475	34,836
Long-term debt — current	40,320	324
Accounts payable	44,798	42,497
Accrued other taxes	10,197	7,108
Accrued employee expenses	10,046	11,338
Accrued interest	6,298	3,585
Unrealized loss on derivative contracts	1,143	2,941
Other	11,469	14,705
Total current liabilities	174,746	117,334
Other Credits		
Advances for construction	67,467	67,465
Contributions in aid of construction — net	123,686	123,602
Deferred income taxes	118,935	120,780
Regulatory liabilities	43,766	32,178
Unamortized investment tax credits	1,384	1,436
Accrued pension and other postretirement benefits	54,239	57,695
Other	11,120	10,920
Total other credits	420,597	414,076
Commitments and Contingencies (Note 9)		
Total Capitalization and Liabilities	$ 1,364,729	$ 1,326,823

The accompanying notes are an integral part of these financial statements.

(in thousands)	Three Months Ended September 30, 2018	2017
Operating Revenues		
Water	$ 87,689	$ 91,919
Electric	7,875	7,994
Total operating revenues	95,564	99,913
Operating Expenses		
Water purchased	21,842	20,576
Power purchased for pumping	3,217	2,913
Groundwater production assessment	5,961	5,870
Power purchased for resale	2,647	2,439
Supply cost balancing accounts	(5,212)	(4,621)
Other operation	6,570	6,493
Administrative and general	16,367	16,929
Depreciation and amortization	9,623	9,509
Maintenance	2,709	2,692
Property and other taxes	4,300	4,144
Gain on sale of assets	—	(17)
Total operating expenses	68,024	66,927
Operating Income	27,540	32,986
Other Income and Expenses		
Interest expense	(5,781)	(5,638)
Interest income	451	318
Other, net	1,123	483
Total other income and expenses, net	(4,207)	(4,837)
Income before income tax expense	23,333	28,149
Income tax expense	5,414	10,813
Net Income	$ 17,919	$ 17,336

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands)	Nine Months Ended September 30, 2018	2017
Operating Revenues		
Water	$ 228,834	$ 239,057
Electric	25,548	26,108
Total operating revenues	254,382	265,165
Operating Expenses		
Water purchased	52,057	50,619
Power purchased for pumping	7,141	6,667
Groundwater production assessment	15,146	14,176
Power purchased for resale	8,439	7,847
Supply cost balancing accounts	(11,110)	(11,663)
Other operation	19,423	18,142
Administrative and general	46,693	48,285
Depreciation and amortization	28,387	28,341
Maintenance	9,034	8,662
Property and other taxes	12,690	12,316
Gain on sale of assets	—	(8,318)
Total operating expenses	187,900	175,074
Operating Income	66,482	90,091
Other Income and Expenses		
Interest expense	(17,397)	(17,170)
Interest income	1,288	1,175
Other, net	1,827	1,587
Total other income and expenses, net	(14,282)	(14,408)
Income before income tax expense	52,200	75,683
Income tax expense	11,743	29,235
Net Income	$ 40,457	$ 46,448

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands)	Nine Months Ended September 30, 2018	2017
Cash Flows From Operating Activities:		
Net income	$ 40,457	$ 46,448
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,566	28,522
Provision for doubtful accounts	597	563
Deferred income taxes and investment tax credits	(3,797)	9,139
Stock-based compensation expense	3,264	1,970
Gain on sale of assets	—	(8,318)
Other — net	(543)	(866)
Changes in assets and liabilities:		
Accounts receivable — customers	(4,385)	(10,683)
Unbilled receivable	(1,135)	(3,138)
Other accounts receivable	4,755	(1,658)
Materials and supplies	(628)	(891)
Prepayments and other assets	(708)	(976)
Regulatory assets	22,945	10,344
Accounts payable	726	5,999
Intercompany receivable/payable	(361)	(623)
Income taxes receivable/payable from/to Parent	5,031	22,992
Accrued pension and other post-retirement benefits	(2,305)	(2,285)
Other liabilities	1,283	1,905
Net cash provided	93,762	98,444
Cash Flows From Investing Activities:		
Capital expenditures	(79,240)	(76,373)
Proceeds from sale of assets	—	34,324
Other investing activities	(1,492)	(1,299)
Net cash used	(80,732)	(43,348)
Cash Flows From Financing Activities:		
Receipt of advances for and contributions in aid of construction	4,363	6,132
Refunds on advances for construction	(3,223)	(3,477)
Retirement or repayments of long-term debt	(326)	(320)
Net change in intercompany borrowings	16,000	(32,000)
Dividends paid	(28,850)	(18,300)
Other financing activities	(1,055)	(1,086)
Net cash used	(13,091)	(49,051)
Net increase in cash and cash equivalents	(61)	6,045
Cash and cash equivalents, beginning of period	214	209
Cash and cash equivalents, end of period	$ 153	$ 6,254
Non-cash transactions:		
Accrued payables for investment in utility plant	$ 21,703	$ 21,975
Property installed by developers and conveyed	$ 1,968	$ 1,796

The accompanying notes are an integral part of these financial statements.

Note 1 — Summary of Significant Accounting Policies

Nature of Operations: American States Water Company ("AWR") is the parent company of Golden State Water Company ("GSWC") and American States Utility Services, Inc. ("ASUS") (and its subsidiaries, Fort Bliss Water Services Company ("FBWS"), Terrapin Utility Services, Inc. ("TUS"), Old Dominion Utility Services, Inc. ("ODUS"), Palmetto State Utility Services, Inc. ("PSUS"), Old North Utility Services, Inc. ("ONUS"), Emerald Coast Utility Services, Inc. ("ECUS"), and Fort Riley Utility Services, Inc. ("FRUS")). The subsidiaries of ASUS are collectively referred to as the "Military Utility Privatization Subsidiaries."

GSWC is a public utility engaged principally in the purchase, production, distribution and sale of water in California serving approximately 260,000 customers. GSWC also distributes electricity in several San Bernardino County mountain communities in California serving approximately 24,000 customers through its Bear Valley Electric Service ("BVES") division. The California Public Utilities Commission ("CPUC") regulates GSWC's water and electric businesses in matters including properties, rates, services, facilities and transactions by GSWC with its affiliates.

ASUS, through its wholly owned subsidiaries, operates, maintains and performs construction activities (including renewal and replacement capital work) on water and/or wastewater systems at various U.S. military bases pursuant to 50-year firm fixed-price contracts. These contracts are subject to economic price adjustments and modifications for changes in circumstances, changes in laws and regulations and additions to the contract value for new construction of facilities at the military bases. In September 2017, ASUS was awarded a new 50-year contract by the U.S. government to operate, maintain, and provide construction management services for the water distribution and wastewater collection and treatment facilities at Fort Riley, a United States Army installation located in Kansas. The contract over the 50-year period is subject to annual economic price adjustments. ASUS began operations at Fort Riley in July 2018.

There is no direct regulatory oversight by the CPUC over AWR or the operations, rates or services provided by ASUS or any of its wholly owned subsidiaries.

Basis of Presentation: The consolidated financial statements and notes thereto are presented in a combined report filed by two separate Registrants: AWR and GSWC. References in this report to "Registrant" are to AWR and GSWC, collectively, unless otherwise specified.

AWR owns all of the outstanding Common Shares of GSWC and ASUS. ASUS owns all of the outstanding Common Shares of the Military Utility Privatization Subsidiaries. The consolidated financial statements of AWR include the accounts of AWR and its subsidiaries, all of which are wholly owned. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Intercompany transactions and balances have been eliminated in the AWR consolidated financial statements.

The consolidated financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The December 31, 2017 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles ("GAAP") in the United States of America. The preparation of the consolidated financial statements 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 date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments consisting of normal, recurring items and estimates necessary for a fair statement of the results for the interim periods have been made. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2017 filed with the SEC.

GSWC's Related Party Transactions: GSWC and ASUS provide and/or receive various support services to and from their parent, AWR, and among themselves. GSWC also allocates certain corporate office administrative and general costs to its affiliate, ASUS, using allocation factors approved by the CPUC. GSWC allocated corporate office administrative and general costs to ASUS of approximately $1.2 million and $1.0 million during the three months ended September 30, 2018 and 2017, respectively, and approximately $3.2 million and $3.0 million during the nine months ended September 30, 2018 and 2017, respectively.

AWR has a $150.0 million syndicated credit facility, which was renewed in May 2018. As of September 30, 2018, AWR had $70.0 million outstanding under this facility. All amounts borrowed by AWR under the renewed facility are contractually due in May 2023 pursuant to the new terms and are generally priced off a spread to LIBOR. AWR borrows under this facility and provides funds to its subsidiaries, GSWC and ASUS, in support of their operations. The interest charged to GSWC and ASUS is sufficient to cover AWR's interest expense under the credit facility. Amounts owed to AWR by GSWC, including for allocated expenses, are included in GSWC's intercompany payable under "Current Liabilities" as of September 30, 2018 and December 31, 2017.

GSWC Long-Term Debt: In March of 2019, $40 million of GSWC's 6.70% senior note will mature. This note has been included in "Current Liabilities" in Registrant's balance sheets as of September 30, 2018. GSWC intends to issue additional common shares to AWR, borrow under its intercompany borrowing arrangement with AWR and/or issue additional long-term debt to fund the repayment of this note as well as to maintain normal operations and to meet its capital and other financing requirements.

Recently Issued Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under this guidance, an entity recognizes revenue when it transfers goods or services to customers in an amount that reflects what the entity expects in exchange for the goods or services. Registrant adopted this guidance under the modified retrospective approach beginning January 1, 2018. The adoption of this guidance did not have a material impact on Registrant's measurement or timing of revenue recognition but required additional disclosures (see Note 2).

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changes the financial statement presentation for the costs of defined benefit pension plans and other retirement benefits. Prior to this guidance, the components of net benefit cost for retirement plans (such as service cost, interest cost, expected return on assets, and the amortization of prior service costs and actuarial gains and losses) were aggregated as operating costs for financial statement presentation purposes. Under the new guidance, the service cost component continues to be presented as operating costs, while all other components of net benefit cost are presented outside of operating income. The new guidance also limits any capitalization of net periodic benefits cost to the service cost component. Registrant adopted the new guidance beginning January 1, 2018, which did not have a material impact on its financial statements. Registrant used its prior year's disclosure of its pension and other employee benefit plans as an estimation for applying the retrospective presentation requirements of this guidance. The components of net periodic benefits cost, other than the service cost component, have been included in the line item "Other, net" in Registrant's income statements (see Note 8).

In November of 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash*. The guidance requires restricted cash to be combined with cash and cash equivalents when reconciling the beginning and end of period cash balances in the statement of cash flows. The adoption of this new guidance in 2018 did not have an impact on Registrant's cash flow statements. In August 2016, the FASB also issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*, which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The adoption of this new guidance in 2018 did not have an impact on Registrant's cash flow statements.

In February 2016, the FASB issued a new lease accounting standard, *Leases* (ASC 842). Under the new standard, lessees will recognize a right-of-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). For income statement purposes, leases will be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Registrant is assessing whether to elect the practical expedients available under this standard. Registrant will apply the new lease standard as of January 1, 2019 and recognize a cumulative-effect adjustment (if any) to the opening balance of retained earnings. Any periods presented prior to

January 1, 2019 will not be adjusted to conform to the new lease standard. Registrant continues to assess the impact of this standard to its financial statements.

In August 2018, the FASB issued ASU 2018-15—Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. Under this standard, entities that enter into cloud computing service arrangements will apply existing internal-use software guidance to determine which implementation costs are eligible for capitalization. Under that guidance, implementation costs are capitalized or expensed depending on the nature of the costs and the project stage during which they are incurred. The new guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. Registrant is currently evaluating the impact of adopting this guidance.

In August 2018, the FASB issued ASU 2018-14—*Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. This update removes disclosures to pension plans and other postretirement benefit plans that no longer are considered cost beneficial, clarifies the specific disclosure requirements and adds disclosure requirements deemed relevant. The amendments in this ASU are effective for fiscal years ending after December 15, 2020 and will be applied on a retrospective basis to all periods presented.

Note 2 — Revenues from Contracts with Customers

Most of Registrant's revenues are accounted for under the revenue recognition accounting standard, *"Revenue from Contracts with Customers - (Topic 606)."* The adoption of this accounting standard effective January 1, 2018 did not have a material impact on Registrant's measurement or timing of revenue recognition.

GSWC provides water and electric utility services to customers as specified by the CPUC. The transaction prices for water and electric revenues are based on tariff rates authorized by the CPUC, which include both quantity-based and flat charges. Tariff revenues represent the adopted revenue requirement authorized by the CPUC intended to provide GSWC with an opportunity to recover its costs and earn a reasonable return on its net capital investment. The annual revenue requirements are comprised of operation and maintenance costs, administrative and general costs, depreciation and taxes in amounts authorized by the CPUC and a return on rate base consistent with the capital structure authorized by the CPUC.

Water and electric revenues are recognized over time as customers simultaneously receive and use the utility services provided. Water and electric revenues include amounts billed to customers on a cyclical basis, nearly all of which are based on meter readings for services provided. Customer bills also include surcharges for cost-recovery activities, which represent CPUC-authorized balancing and memorandum accounts that allow for the recovery of previously incurred operating costs. Revenues from these surcharges result in no impact to earnings as they are offset by corresponding increases in operating expenses to reflect the recovery of the associated costs. Customer payment terms are approximately 20 business days from the billing date. Unbilled revenues are amounts estimated to be billed for usage since the last meter-reading date to the end of the accounting period. Historical customer usage forms the basis for estimating unbilled revenue.

GSWC bills certain sales and use taxes levied by state or local governments to its customers. Included in these sales and use taxes are franchise fees, which GSWC pays to various municipalities and counties (based on their ordinances) in order to use public rights of way for utility purposes. GSWC bills these franchise fees to its customers based on a CPUC-authorized rate for each ratemaking area as applicable. These franchise fees, which are required to be paid regardless of GSWC's ability to collect them from its customers, are accounted for on a gross basis. GSWC's franchise fees billed to customers and recorded as operating revenue were approximately $1.0 million for each of the three months ended September 30, 2018 and 2017, and $2.8 million for each of the nine months ended September 30, 2018 and 2017. When GSWC acts as an agent, and a tax is not required to be remitted if it is not collected from customers, the tax is accounted for on a net basis.

GSWC revenues tracked under the Water Revenue Adjustment Mechanism ("WRAM") regulatory accounts for its water segment, and the Base Revenue Requirement Adjustment Mechanism ("BRRAM") regulatory account for its electric segment, are alternative revenue programs accounted for under Accounting Standards Codification ("ASC") Topic 980, *Regulated Operations*.

For ASUS, performance obligations consist of (i) performing ongoing operation and maintenance of the water and/or wastewater systems and treatment plants for each military base served, and (ii) performing construction activities (including renewal and replacement capital work) on each military base served. The transaction price for each performance obligation is either delineated in, or initially derived from, the applicable 50-year contract and/or any subsequent contract modifications. Depending on the state in which operations are conducted, the Military Utility Privatization Subsidiaries are also subject to certain state non-income tax assessments, which are accounted for on a gross basis and have been immaterial to date.

The ongoing performance of operation and maintenance of the water and/or wastewater systems and treatment plants is viewed as a single performance obligation for each 50-year contract with the U.S. government. Registrant recognizes revenue for operations and maintenance fees monthly using the "right to invoice" practical expedient under ASC Topic 606. ASUS has a right to consideration from the U.S. government in an amount that corresponds directly to the value to the U.S. government of ASUS's performance completed to date. The contractual operations and maintenance fees are firm-fixed, and the level of effort or resources expended in the performance of the operations-and-maintenance-fees performance obligation is largely consistent over the 50-year term. Therefore, Registrant has determined that the monthly amounts invoiced for operations and maintenance performance are a fair reflection of the value transferred to the U.S. government. Invoices to the U.S. government for operations and maintenance service, as well as construction activities, are due upon receipt.

ASUS's construction activities consist of various projects to be performed. Each of these projects' transaction prices is delineated either in the 50-year contract or through a specific contract modification for each construction project, which includes the transaction price for that project. Each construction project is viewed as a separate, single performance obligation. Therefore, it is generally not necessary to allocate a construction transaction price to more than one construction performance obligation.

Revenues for construction activities are recognized over time, with progress toward completion measured based on the input method using costs incurred relative to the total estimated costs (cost-to-cost method). Due to the nature of these construction projects, Registrant has determined the cost-to-cost input measurement to be the best method to measure progress towards satisfying its construction contract performance obligations, as compared to using an output measurement such as units produced. Changes in job performance, job site conditions, change orders and/or estimated profitability may result in revisions to costs and income for ASUS, and are recognized in the period in which any such revisions are determined. Pre-contract costs for ASUS, which consist of design and engineering labor costs, are deferred if recovery is probable, and are expensed as incurred if recovery is not probable. Deferred pre-contract costs have been immaterial to date.

Contracted services revenues recognized during the three and nine months ended September 30, 2018 from performance obligations satisfied in previous periods were not material.

Although GSWC has a diversified base of residential, commercial, industrial and other customers, revenues derived from residential and commercial customers account for approximately 90% of total water revenues, and 90% of total electric revenues. For the three and nine months ended September 30, 2018, disaggregated revenues from contracts with customers by segment are as follows:

(dollar in thousands)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Water:		
Tariff-based revenues	$ 87,204	$ 223,230
CPUC-approved surcharges (cost-recovery activities)	937	2,458
Other	486	1,381
Water revenues from contracts with customers	88,627	227,069
WRAM under-collection (alternative revenue program)	(938)	1,765
Total water revenues	87,689	228,834
Electric:		
Tariff-based revenues	8,207	26,021
CPUC-approved surcharges (cost-recovery activities)	62	172
Electric revenues from contracts with customers	8,269	26,193
BRRAM over-collection (alternative revenue program)	(394)	(645)
Total electric revenues	7,875	25,548
Contracted services:		
Water	16,909	44,134
Wastewater	11,709	27,295
Contracted services revenues from contracts with customers	28,618	71,429
Total revenues	$ 124,182	$ 325,811

The opening and closing balances of the receivable from the U.S. government, contract assets and contract liabilities from contracts with customers, which related entirely to ASUS, are as follows:

(dollar in thousands)	September 30, 2018	January 1, 2018
Receivable from the U.S. government	$ 54,968	$ 40,150
Contract assets	$ 19,043	$ 30,388
Contract liabilities	$ 8,942	$ 3,911

As a result of the adoption of ASC Topic 606, amounts previously reported under "Costs and estimated earnings in excess of billings on contracts" are now reflected as either "Receivable from U.S. government" or "Contract assets," depending on whether receipt of these amounts is conditional on something other than the passage of time. Amounts previously reported under "Billings in excess of costs and estimated earnings on contracts" are now reflected as "Contract liabilities."

Contract Assets - Contract assets are those of ASUS and consist of unbilled revenues recognized from work-in-progress construction projects where the right to payment is conditional on something other than the passage of time. The classification of this asset as current or noncurrent is based on the timing of when ASUS expects to bill these amounts.

Contract Liabilities - Contract liabilities are those of ASUS and consist of billings in excess of revenue recognized. The classification of this liability as current or noncurrent is based on the timing of when ASUS expects to recognize revenue.

Revenue for the three and nine months ended September 30, 2018 that were included in contract liabilities at the beginning of the period were $3.4 million and $3.7 million, respectively.

As of September 30, 2018, Registrant's aggregate remaining performance obligations, all of which are for the contracted services segment, was $3.2 billion. Registrant expects to recognize revenue on these remaining performance obligations over the remaining terms of each of the 50-year contracts, which range from 36 to 50 years. Each of the contracts with the U.S. government is subject to termination, in whole or in part, prior to the end of its 50-year term for the convenience of the U.S. government.

Note 3 — Regulatory Matters

In accordance with accounting principles for rate-regulated enterprises, Registrant records regulatory assets, which represent probable future recovery of costs from customers through the ratemaking process, and regulatory liabilities, which represent probable future refunds that are to be credited to customers through the ratemaking process. At September 30, 2018, Registrant had approximately $59.6 million of regulatory liabilities, net of regulatory assets not accruing carrying costs. Of this amount, (i) $81.9 million of regulatory liabilities are excess deferred income taxes arising from the lower federal income tax rate due to the Tax Cuts and Jobs Act ("Tax Act") enacted in December 2017 that are expected to be refunded to customers, (ii) $15.8 million of regulatory liabilities are from flowed-through deferred income taxes, (iii) $33.5 million of regulatory assets relates to the underfunded position in Registrant's pension and other post-retirement obligations (not including the two-way pension balancing accounts), and (iv) $1.1 million of regulatory assets relates to a memorandum account authorized by the CPUC to track unrealized gains and losses on BVES's purchase power contracts over the term of the contracts.

Regulatory assets represent costs incurred by GSWC for which it has received or expects to receive rate recovery in the future. In determining the probability of costs being recognized in other periods, GSWC considers regulatory rules and decisions, past practices, and other facts and circumstances that would indicate if recovery is probable. If the CPUC determines that a portion of GSWC’s assets are not recoverable in customer rates, GSWC must determine if it has suffered an asset impairment requiring it to write down the asset's value. Regulatory assets are offset against regulatory liabilities within each ratemaking area. Amounts expected to be collected or refunded in the next 12 months have been classified as current assets and current liabilities by ratemaking area. Regulatory assets, less regulatory liabilities, included in the consolidated balance sheets are as follows:

(dollars in thousands)	September 30, 2018	December 31, 2017
GSWC		
Water Revenue Adjustment Mechanism, net of Modified Cost Balancing Account	$ 24,264	$ 29,556
Costs deferred for future recovery on Aerojet case	9,809	10,656
Pensions and other post-retirement obligations (Note 8)	31,066	33,019
Derivative unrealized loss (Note 5)	1,143	2,941
Low income rate assistance balancing accounts	3,660	5,972
General rate case memorandum accounts	6,798	10,522
Other regulatory assets	15,506	14,875
Excess deferred income taxes (Note 7)	(81,912)	(83,231)
Flow-through taxes, net (Note 7)	(15,816)	(17,716)
Tax Cuts and Jobs Act ("Tax Act") memorandum accounts	(8,274)	—
Various refunds to customers	(7,880)	(4,552)
Total	$ (21,636)	$ 2,042

Regulatory matters are discussed in detail in the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2017 filed with the SEC. The discussion below focuses on significant matters and developments since December 31, 2017.

Alternative-Revenue Programs:

GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC using the Water Revenue Adjustment Mechanism ("WRAM") and Modified Cost Balancing Account ("MCBA") accounts approved by the CPUC. The over- or under-collection of the WRAM is aggregated with the MCBA over- or under-collection for the corresponding ratemaking area and bears interest at the current 90-day commercial paper rate.

As required by the accounting guidance for alternative revenue programs, GSWC is required to collect its WRAM balances, net of its MCBA, within 24 months following the year in which an under-collection is recorded in order to recognize such amounts as revenue. The recovery periods for the majority of GSWC's WRAM/MCBA balances are primarily within 12 to 24 months. GSWC has implemented surcharges to recover its WRAM/MCBA balances as of December 31, 2017. For the three months ended September 30, 2018 and 2017, surcharges (net of surcredits) of approximately $7.7 million and $11.4 million, respectively, were billed to customers to recover previously incurred under-collections in the WRAM/MCBA accounts. For the nine months ended September 30, 2018 and 2017, surcharges (net of surcredits) of approximately $17.5 million and $24.8 million, respectively, were billed to customers. During the nine months ended September 30, 2018, GSWC recorded additional net under-collections in the WRAM/MCBA accounts of $12.2 million mainly due to higher than adopted supply costs. As of September 30, 2018, GSWC had an aggregated regulatory asset of $24.3 million, which is comprised of a $3.4 million under-collection in the WRAM accounts and a $20.9 million under-collection in the MCBA accounts.

Other Regulatory Matters:

Tax Cuts and Jobs Act ("Tax Act"):

On December 22, 2017, the Tax Act was signed into federal law. The provisions of this major tax reform were generally effective January 1, 2018. The most significant provisions of the Tax Act impacting GSWC are the reduction of the federal corporate income tax rate from 35% to 21% and the elimination of bonus depreciation for regulated utilities. Pursuant to a CPUC directive, the 2018 impact of the Tax Act on the water segment's adopted revenue requirement is being captured in a memorandum account effective January 1, 2018. For the three and nine months ended September 30, 2018, approximately $944,000 and $7.4 million, respectively, of reduced water-revenue requirements were tracked and recorded as a regulatory liability, which were largely offset by decreases in income tax expense. In March 2018, GSWC filed updated testimony revising the revenue requirements to reflect the impacts of the Tax Act in its pending water general rate case that will set new rates for the years 2019 - 2021. On July 1, 2018, new lower water rates, which incorporate the new federal income tax rate, were implemented for all water ratemaking areas.

The CPUC also ordered GSWC to update its pending electric general rate case filing, which will determine new electric rates for the years 2018 - 2021, to reflect the lower federal corporate income tax rate. As a result, for the three and nine months ended September 30, 2018, GSWC reduced electric revenues by approximately $125,000 and $848,000, respectively, and recorded a corresponding regulatory liability that will be satisfied as part of implementing overall new rates from the general rate case retroactive to January 1, 2018.

Reductions in the water and electric revenue requirements resulting from the impacts of the Tax Act are largely offset by decreases in GSWC's income tax expense, resulting in no material impact to earnings (see Note 7).

Cost of Capital Proceeding:

In March 2018, the CPUC issued a final decision in the cost of capital proceeding for GSWC and three other water utilities for the years 2018 - 2020. Among other things, the final decision adopted for GSWC's water segment a return on equity of 8.90%, with a return on rate base of 7.91%. The previously authorized return on equity for GSWC's water segment was 9.43%, with a return on rate base of 8.34%. Including the effects of the Tax Act, the lower return on equity and rate base are expected to decrease GSWC's annual adopted revenue requirement beginning in 2018 by approximately $3.6 million. In April 2018, GSWC implemented new water rates to incorporate the cost of capital decision. For the nine months ended September 30, 2018, GSWC recorded a regulatory liability with a corresponding decrease in water revenues of approximately $955,000 representing the revenue difference between the old and new cost of capital rates through April 2018.

Pending General Rate Case Filings:

In July 2017, GSWC filed a general rate case application with the CPUC for all of GSWC's water regions and the general office. This general rate case will determine new water rates for the years 2019 - 2021. On August 15, 2018, GSWC and the CPUC's Public Advocates Office ("CalPA"), formerly the Office of Ratepayer Advocates, filed a joint motion to adopt a settlement agreement between GSWC and CalPA in connection with this general rate case. If approved by the CPUC, this settlement agreement will resolve all of the issues in the general rate case. GSWC and CalPA informed the assigned Administrative Law Judge ("ALJ") that hearings would not be needed in light of the settlement agreement. Subsequently, the ALJ issued a ruling requesting additional information on a number of items in the general rate case. GSWC has provided the additional information requested by the ALJ and believes it has satisfied all of the questions raised. Both the ALJ's request and GSWC's response are public information. At this time, GSWC is awaiting a proposed decision by the ALJ, which is expected during the fourth quarter of 2018, with a final decision by the CPUC expected by the first quarter of 2019. When approved, the new rates will become effective January 1, 2019.

In May 2017, GSWC filed its electric general rate case application with the CPUC to determine new electric rates for the years 2018 through 2021. GSWC and CalPA have reached a tentative settlement, which resolves all revenue requirement issues in this general rate case. A settlement conference with all parties in the rate case is scheduled for November 2018. Among other things, the tentative settlement incorporates a previous stipulation in the case, which authorizes a new return on equity for GSWC's electric segment of 9.60%. GSWC's prior authorized return on equity for its electric segment was 9.95%. The stipulation also included a capital structure and debt cost similar to those approved by the CPUC in March 2018 in connection with GSWC's water segment cost of capital proceeding, as discussed above. Because of the delay in finalizing the electric general rate case, year-to-date 2018 billed electric revenues have been based on 2017 adopted rates, pending a final decision by the CPUC in this rate case application. When a final decision is approved, the new electric rates will be retroactive to January 1, 2018.

Note 4 — Earnings per Share/Capital Stock

In accordance with the accounting guidance for participating securities and earnings per share ("EPS"), Registrant uses the "two-class" method of computing EPS. The "two-class" method is an earnings allocation formula that determines EPS for each class of common stock and participating security. AWR has participating securities related to restricted stock units that earn dividend equivalents on an equal basis with AWR's Common Shares that have been issued under AWR's stock incentive plans for employees and the non-employee directors stock plans. In applying the "two-class" method, undistributed earnings are allocated to both common shares and participating securities.

The following is a reconciliation of Registrant's net income and weighted average Common Shares outstanding used for calculating basic net income per share:

Basic:	**For The Three Months Ended September 30,**		**For The Nine Months Ended September 30,**	
(in thousands, except per share amounts)	**2018**	**2017**	**2018**	**2017**
Net income	$ 22,952	$ 21,006	50,082	56,499
Less: (a) Distributed earnings to common shareholders	10,102	9,349	28,831	27,064
Distributed earnings to participating securities	54	50	151	139
Undistributed earnings	12,796	11,607	21,100	29,296
(b) Undistributed earnings allocated to common shareholders	12,727	11,546	20,991	29,147
Undistributed earnings allocated to participating securities	69	61	109	149
Total income available to common shareholders, basic (a) + (b)	$ 22,829	$ 20,895	$ 49,822	$ 56,211
Weighted average Common Shares outstanding, basic	36,737	36,659	36,728	36,625
Basic earnings per Common Share	$ 0.62	$ 0.57	$ 1.36	$ 1.53

Diluted EPS is based upon the weighted average number of Common Shares, including both outstanding shares and shares potentially issuable in connection with stock options and restricted stock units granted under AWR's stock incentive plans for employees and the non-employee directors stock plans, and net income. At September 30, 2018 and 2017, there were 47,792 and 70,702 options outstanding, respectively, under these plans. At September 30, 2018 and 2017, there were also 198,613 and 195,457 restricted stock units outstanding, respectively, including performance shares awarded to officers of the Registrant.

The following is a reconciliation of Registrant's net income and weighted average Common Shares outstanding for calculating diluted net income per share:

Diluted:	**For The Three Months Ended September 30,**		**For The Nine Months Ended September 30,**	
(in thousands, except per share amounts)	**2018**	**2017**	**2018**	**2017**
Common shareholders earnings, basic	$ 22,829	$ 20,895	$ 49,822	$ 56,211
Undistributed earnings for dilutive stock-based awards	69	61	109	149
Total common shareholders earnings, diluted	$ 22,898	$ 20,956	$ 49,931	$ 56,360
Weighted average common shares outstanding, basic	36,737	36,659	36,728	36,625
Stock-based compensation **(1)**	213	197	207	188
Weighted average common shares outstanding, diluted	36,950	36,856	36,935	36,813
Diluted earnings per Common Share	$ 0.62	$ 0.57	$ 1.35	$ 1.53

(1) In applying the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in the calculation of diluted EPS, 47,792 and 70,702 stock options at September 30, 2018 and 2017, respectively, were deemed to be outstanding in accordance with the accounting guidance on earnings per share. All of the 198,613 and 195,457 restricted stock units at September 30, 2018 and 2017, respectively, were included in the calculation of diluted EPS for the three and nine months ended September 30, 2018 and 2017.

No stock options outstanding at September 30, 2018 had an exercise price greater than the average market price of AWR's Common Shares for the three and nine months ended September 30, 2018. There were no stock options outstanding at September 30, 2018 or 2017 that were anti-dilutive.

During the nine months ended September 30, 2018 and 2017, AWR issued 64,245 and 107,815 Common Shares, for approximately $348,000 and $884,000, respectively, under Registrant's Common Share Purchase and Dividend Reinvestment Plan, the 401(k) Plan, the 2000 and 2008 Stock Incentive Plans and the 2003 and 2013 Non-Employee Directors Stock Plans.

During the three months ended September 30, 2018 and 2017, AWR paid quarterly dividends of approximately $10.1 million, or $0.275 per share, and $9.3 million, or $0.255 per share, respectively. During the nine months ended September 30, 2018 and 2017, AWR paid quarterly dividends to shareholders of approximately $28.8 million, or $0.785 per share, and $27.1 million, or $0.739 per share, respectively.

Note 5 — Derivative Instruments

Derivative financial instruments are used to manage exposure to commodity price risk. Commodity price risk represents the potential impact that can be caused by a change in the market value of a commodity. BVES purchases power under long-term contracts at a fixed cost depending on the amount of power and the period during which the power is purchased under such contracts. In December 2014, the CPUC approved an application that allowed BVES to immediately execute new long-term purchased power contracts with energy providers. BVES began taking power under these long-term contracts effective January 1, 2015 at a fixed cost over three-and five-year terms depending on the amount of power and the period during which the power is purchased under the contracts.

BVES's long-term contracts are subject to the accounting guidance for derivatives and require mark-to-market derivative accounting. Among other things, the CPUC also authorized GSWC to establish a regulatory asset and liability memorandum account to offset the mark-to-market entries required by the accounting guidance. Accordingly, all unrealized gains and losses generated from the purchased power contracts are deferred monthly into a non-interest bearing regulatory memorandum account that tracks the changes in fair value of the derivatives throughout the term of the contracts. As a result, these unrealized gains and losses do not impact GSWC's earnings. As of September 30, 2018, there was a $1.1 million unrealized loss in the memorandum account for the purchased power contracts as a result of the drop in energy prices. The notional volume of derivatives remaining under these long-term contracts as of September 30, 2018 was approximately 123,000 megawatt hours.

The accounting guidance for fair value measurements applies to all financial assets and financial liabilities that are measured and reported on a fair value basis. Under the accounting guidance, GSWC makes fair value measurements that are classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

To value the contracts, Registrant applies the Black-76 model, utilizing various inputs that include quoted market prices for energy over the duration of the contracts. The market prices used to determine the fair value for these derivative instruments were estimated based on independent sources such as broker quotes and publications that are not observable in or corroborated by the market. Registrant received one broker quote to determine the fair value of its derivative instruments. When such inputs have a significant impact on the measurement of fair value, the instruments are categorized as Level 3. Accordingly, the valuation of the derivatives on Registrant's purchased power contract has been classified as Level 3 for all periods presented.

The following table presents changes in the fair value of GSWC's Level 3 derivatives for the three and nine months ended September 30, 2018 and 2017:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
(dollars in thousands)	**2018**	**2017**	**2018**	**2017**
Fair value at beginning of the period	$ (1,710)	$ (4,493)	$ (2,941)	$ (4,901)
Unrealized gain on purchased power contracts	567	656	1,798	1,064
Fair value at end of the period	$ (1,143)	$ (3,837)	$ (1,143)	$ (3,837)

Note 6 — Fair Value of Financial Instruments

For cash and cash equivalents, accounts receivable, accounts payable and short-term debt, the carrying amount is assumed to approximate fair value due to the short-term nature of the amounts.

Investments held in a Rabbi Trust for the supplemental executive retirement plan ("SERP") are measured at fair value and totaled $17.8 million as of September 30, 2018. All equity investments in the Rabbi Trust are Level 1 investments in mutual funds. The investments held in the Rabbi Trust are included in Other Property and Investments on Registrant's balance sheets.

The table below estimates the fair value of long-term debt held by GSWC. The fair values as of September 30, 2018 and December 31, 2017 were determined using rates for similar financial instruments of the same duration utilizing Level 2 methods and assumptions. The interest rates used for the September 30, 2018 valuation increased as compared to December 31, 2017, decreasing the fair value of long-term debt as of September 30, 2018. Changes in the assumptions will produce different results.

	September 30, 2018		December 31, 2017	
(dollars in thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial liabilities:				
Long-term debt—GSWC **(1)**	$ 324,978	$ 389,438	$ 325,265	$ 424,042

(1) Excludes debt issuance costs and redemption premiums.

Note 7 — Income Taxes

On December 22, 2017, the Tax Act was signed into federal law. The provisions of this major tax reform were generally effective January 1, 2018. Among its significant provisions, the Tax Act reduced the federal corporate income tax rate from 35% to 21% and eliminated bonus depreciation for regulated utilities. AWR's effective tax rate (“ETR”) was 23.2% and 37.3% for the three months ended September 30, 2018 and 2017, respectively, and was 21.7% and 37.3% for the nine months ended September 30, 2018 and 2017, respectively. GSWC's ETR was 23.2% and 38.4% for the three months ended September 30, 2018 and 2017, respectively, and was 22.5% and 38.6% for the nine months ended September 30, 2018 and 2017, respectively. Both decreases were due primarily to the reduction in the federal corporate income tax rate.

AWR's ETR differed from the new federal statutory rate primarily as a result of the differences between GSWC's ETR and the new federal statutory rate. These differences resulted primarily from: (i) state taxes, (ii) permanent differences including the excess tax benefits from share-based payments, which were reflected in the income statements and resulted in a reduction to income tax expense during the three and nine months ended September 30, 2018 and 2017, (iii) differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (principally from plant, rate-case, and compensation expenses), and (iv) commencement of the amortization of the excess deferred income tax liability brought about by the lower federal corporate income tax rate. There were no material updates to the excess deferred income tax liability balance during the three and nine months ended September 30, 2018 in accordance with Staff Accounting Bulletin 118.

Note 8 — Employee Benefit Plans

The components of net periodic benefit costs, before allocation to the overhead pool, for Registrant’s pension plan, postretirement plan and the supplemental executive retirement plan ("SERP") for the three and nine months ended September 30, 2018 and 2017 are as follows:

	For The Three Months Ended September 30,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2018	2017	2018	2017	2018	2017
Components of Net Periodic Benefits Cost:						
Service cost	$ 1,335	$ 1,250	$ 48	$ 53	$ 274	$ 232
Interest cost	1,912	1,976	75	73	222	223
Expected return on plan assets	(2,793)	(2,428)	(123)	(107)	—	—
Amortization of prior service cost (benefit)	—	—	—	—	—	3
Amortization of actuarial (gain) loss	314	231	(212)	(242)	262	194
Net periodic pension cost under accounting standards	768	1,029	(212)	(223)	758	652
Regulatory adjustment — deferred	—	266	—	—	—	—
Total expense recognized, before surcharges and allocation to overhead pool	$ 768	$ 1,295	$ (212)	$ (223)	$ 758	$ 652

(dollars in thousands)	Pension Benefits 2018	Pension Benefits 2017	Other Postretirement Benefits 2018	Other Postretirement Benefits 2017	SERP 2018	SERP 2017
	For The Nine Months Ended September 30,					
Components of Net Periodic Benefits Cost:						
Service cost	$ 4,005	$ 3,750	$ 162	$ 171	$ 822	$ 696
Interest cost	5,736	5,928	219	243	666	669
Expected return on plan assets	(8,379)	(7,278)	(369)	(351)	—	—
Amortization of prior service cost (benefit)	—	—	—	—	—	9
Amortization of actuarial (gain) loss	942	693	(576)	(582)	786	582
Net periodic pension cost under accounting standards	2,304	3,093	(564)	(519)	2,274	1,956
Regulatory adjustment — deferred	—	791	—	—	—	—
Total expense recognized, before surcharges and allocation to overhead pool	$ 2,304	$ 3,884	$ (564)	$ (519)	$ 2,274	$ 1,956

In accordance with new accounting guidance (Note 1), effective January 1, 2018, Registrant changed the financial statement presentation for the costs of its defined benefit pension plans and other retirement benefits. The components of net periodic benefits cost, other than the service cost component, have been included in the line item "Other, net" in Registrant's income statements. Prior period amounts have been reclassified on the income statements to conform to the current-period presentation.

During the nine months ended September 30, 2018, Registrant contributed $6.0 million to its pension plan.

Regulatory Adjustment:

As authorized by the CPUC in the most recent water and electric general rate case decisions, GSWC utilizes two-way balancing accounts for its water and electric regions and the general office to track differences between the forecasted annual pension expenses in rates, or expected to be in rates, and the actual annual expense recorded by GSWC in accordance with the accounting guidance for pension costs. As of September 30, 2018, GSWC had a $2.5 million over-collection in the two-way pension balancing accounts included as part of the pension regulatory asset (Note 3).

Note 9 — Contingencies and Gain on Sale of Assets

Condemnation of Properties:

The laws of the State of California provide for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation, where doing so is necessary and in the public interest. In addition, these laws provide that the owner of utility property (i) may contest whether the condemnation is necessary and in the public interest, and (ii) is entitled to receive the fair market value of its property if the property is ultimately taken.

Ojai Water System and Gain on Sale of Assets:

Pursuant to a settlement agreement, on June 8, 2017, Casitas Municipal Water District ("Casitas") acquired the operating assets of GSWC's 2,900-connection Ojai water system by eminent domain for $34.3 million in cash, including payments for customer receivables and regulatory assets. As a result of this transaction, GSWC recorded a pretax gain of $8.3 million on the sale of the Ojai water system during the second quarter of 2017. The terms of the settlement agreement resolved the eminent domain action and dismissed all claims against GSWC brought by Casitas and another third party.

Environmental Clean-Up and Remediation:

GSWC has been involved in environmental remediation and cleanup at a plant site that contained an underground storage tank that had been used to store gasoline for its vehicles. The tank was removed from the ground in July 1990 along with the dispenser and ancillary piping. Since then, GSWC has been involved in various remediation activities at the site. Analyses indicate that off-site monitoring wells may be necessary to document the effectiveness of remediation.

As of September 30, 2018, the total spent to clean-up and remediate GSWC's plant facility was approximately $5.4 million, of which $1.5 million has been paid by the State of California Underground Storage Tank Fund. Amounts paid by GSWC have been included in rate base and approved by the CPUC for recovery. As of September 30, 2018, GSWC has a regulatory asset and an accrued liability for the estimated additional cost of $1.3 million to complete the cleanup at the site. The estimate includes costs for two years of continued activities of groundwater cleanup and monitoring, future soil treatment and site-closure-related activities. The ultimate cost may vary as there are many unknowns in remediation of underground gasoline spills and this is an estimate based on currently available information. Management believes it is probable that the estimated additional costs will be approved in rate base by the CPUC.

Other Litigation:

Registrant is also subject to other ordinary routine litigation incidental to its business, some of which may include claims for compensatory and punitive damages. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against, among other things, property, general liability, employment, and workers' compensation claims incurred in the ordinary course of business. Insurance coverage may not cover certain claims involving punitive damages. However, Registrant does not believe the outcome from any pending suits or administrative proceedings will have a material effect on Registrant's consolidated results of operations, financial position or cash flows.

Note 10 — Business Segments

AWR has three reportable segments, water, electric and contracted services, whereas GSWC has two segments, water and electric. On a stand-alone basis, AWR has no material assets other than its investments in its subsidiaries.

All activities of GSWC, a rate-regulated utility, are located within California. Activities of ASUS and its subsidiaries are conducted in California, Florida, Georgia, Kansas, Maryland, New Mexico, North Carolina, South Carolina, Texas and Virginia. Each of ASUS's wholly owned subsidiaries is regulated, if applicable, by the state in which the subsidiary primarily conducts water and/or wastewater operations. Fees charged for operations and maintenance and renewal and replacement services are based upon the terms of the contracts with the U.S. government which have been filed, as appropriate, with the commissions in the states in which ASUS's subsidiaries are incorporated.

The tables below set forth information relating to GSWC's operating segments, ASUS and its subsidiaries and other matters. Total assets by segment are not presented below, as certain of Registrant's assets are not tracked by segment. The utility plant amounts are net of respective accumulated provisions for depreciation. Capital additions reflect capital expenditures paid in cash, and exclude U.S. government- and third-party contractor-funded capital expenditures for ASUS and property installed by developers and conveyed to GSWC.

	As Of And For The Three Months Ended September 30, 2018				
	GSWC			AWR	Consolidated
(dollars in thousands)	Water	Electric	ASUS	Parent	AWR
Operating revenues	$ 87,689	$ 7,875	$ 28,618	$ —	$ 124,182
Operating income (loss)	26,710	830	6,437	(2)	33,975
Interest expense, net	5,039	291	(118)	95	5,307
Utility plant	1,187,786	61,404	13,725	—	1,262,915
Depreciation and amortization expense **(1)**	9,058	565	495	—	10,118
Income tax expense (benefit)	5,247	167	1,606	(81)	6,939
Capital additions	24,590	1,140	2,816	—	28,546

	As Of And For The Three Months Ended September 30, 2017				
	GSWC			AWR	Consolidated
(dollars in thousands)	Water	Electric	ASUS	Parent	AWR
Operating revenues	$ 91,919	$ 7,994	$ 24,505	$ —	$ 124,418
Operating income (loss) **(2)**	31,408	1,578	5,551	(3)	38,534
Interest expense, net	4,974	346	58	76	5,454
Utility plant	1,117,674	57,669	6,273	—	1,181,616
Depreciation and amortization expense **(1)**	8,972	537	345	—	9,854
Income tax expense (benefit)	10,544	269	1,944	(249)	12,508
Capital additions	30,536	559	905	—	32,000

	As Of And For The Nine Months Ended September 30, 2018				
	GSWC			AWR	Consolidated
(dollars in thousands)	Water	Electric	ASUS	Parent	AWR
Operating revenues	$ 228,834	$ 25,548	$ 71,429	$ —	$ 325,811
Operating income (loss)	62,012	4,470	11,759	(7)	78,234
Interest expense, net	15,095	1,014	(255)	252	16,106
Utility plant	1,187,786	61,404	13,725	—	1,262,915
Depreciation and amortization expense **(1)**	26,693	1,694	1,407	—	29,794
Income tax expense (benefit)	10,805	938	2,865	(718)	13,890
Capital additions	75,976	3,264	8,088	—	87,328

	As Of And For The Nine Months Ended September 30, 2017				
	GSWC			AWR	Consolidated
(dollars in thousands)	Water	Electric	ASUS	Parent	AWR
Operating revenues	$ 239,057	$ 26,108	$ 71,258	$ —	$ 336,423
Operating income (loss) **(2)**	84,200	5,891	15,055	(10)	105,136
Interest expense, net	14,924	1,071	214	197	16,406
Utility plant	1,117,674	57,669	6,273	—	1,181,616
Depreciation and amortization expense **(1)**	26,731	1,610	843	—	29,184
Income tax expense (benefit)	27,739	1,496	5,152	(717)	33,670
Capital additions	74,113	2,260	1,523	—	77,896

(1) Depreciation computed on GSWC's transportation equipment is recorded in other operating expenses and totaled $58,000 and $61,000 for the three months ended September 30, 2018 and 2017, respectively, and $179,000 and $181,000 for the nine months ended September 30, 2018 and 2017, respectively.

(2) Adjusted to conform to current-year presentation pursuant to the adoption of ASU 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

The following table reconciles total utility plant (a key figure for ratemaking) to total consolidated assets (in thousands):

	September 30,	
	2018	2017
Net property, plant and equipment	$ 1,262,915	$ 1,181,616
Other assets	202,127	304,870
Total consolidated assets	$ 1,465,042	$ 1,486,486

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis provides information on AWR's consolidated operations and assets, and where necessary, includes specific references to AWR's individual segments and/or its subsidiaries: GSWC and ASUS and its subsidiaries. Included in the following analysis is a discussion of water and electric gross margins. Water and electric gross margins are computed by subtracting total supply costs from total revenues. Registrant uses these gross margins as important measures in evaluating its operating results. Registrant believes these measures are useful internal benchmarks in evaluating the performance of GSWC.

The discussions and tables included in the following analysis also present Registrant's operations in terms of earnings per share by business segment. Registrant believes that the disclosure of earnings per share by business segment provides investors with clarity surrounding the performance of its different services. Registrant reviews these measurements regularly and compares them to historical periods and to its operating budget. However, these measures, which are not presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income or earnings per share, which are determined in accordance with GAAP. A reconciliation of water and electric gross margins to the most directly comparable GAAP measures is included in the table under the section titled "*Operating Expenses: Supply Costs.*" Reconciliations to AWR's diluted earnings per share are included in the discussions under the sections titled "*Summary of Third Quarter Results by Segment*" and "*Summary of Year-to-Date Results by Segment.*"

Overview

Factors that may affect our financial performance are summarized under *Forward-Looking Information*.

Tax Cuts and Jobs Act ("Tax Act"):

On December 22, 2017, the Tax Act was signed into federal law. The provisions of this major tax reform were generally effective January 1, 2018. The most significant provisions of the Tax Act impacting GSWC are the reduction of the federal corporate income tax rate from 35% to 21% and the elimination of bonus depreciation for regulated utilities. As a result, for the three and nine months ended September 30, 2018, the water-revenue requirement was reduced by approximately $4.2 million and $10.7 million, respectively, as a result of the Tax Act, which was largely offset by a decrease in income tax expense, resulting in no material impact to earnings. The CPUC also ordered GSWC to update its pending electric general rate case filing, which will determine new electric rates for the years 2018 - 2021, to reflect the lower federal corporate income tax rate. As a result, for the three and nine months ended September 30, 2018, GSWC reduced electric revenues by approximately $125,000 and $848,000, respectively, which were also largely offset by a corresponding decrease in income tax expense, resulting in no material impact to earnings.

In addition to lowering customer rates, GSWC expects the Tax Act to reduce property-related deferred tax liabilities. Property-related deferred tax liabilities reduce GSWC's rate base. As new plant is placed in service, the lower federal corporate tax rate will result in lower deferred tax liabilities. As a result of the lower federal tax rate and elimination of bonus depreciation by the Tax Act, GSWC expects that its rate base and earnings will increase for the same level of expected capital expenditures. This increase is expected to be partially offset by higher financing costs arising from a greater need to fund capital expenditures through the issuance of debt and/or equity due to lower cash flows from operating activities.

During the second and third quarter of 2018, the U.S. government issued contract modifications for the majority of ASUS's 50-year contracts addressing the impacts of the Tax Act. The modifications did not result in a material impact to ASUS's results during the three and nine months ended September 30, 2018.

Water and Electric Segments:

Pending General Rate Case ("GRC") Filings:

Water Segment GRC:

In July 2017, GSWC filed a general rate case application for all its water regions and the general office. This general rate case will determine new water rates for the years 2019 through 2021. On August 15, 2018, GSWC and the CPUC's Public

Advocates Office ("CalPA"), formerly the Office of Ratepayer Advocates, filed a joint motion to adopt a settlement agreement between GSWC and the CalPA in connection with this general rate case. If approved by the CPUC, this settlement resolves all the issues in the general rate case application and authorizes GSWC to invest approximately $334.5 million in capital infrastructure over the three-year rate cycle. The $334.5 million of infrastructure investment, as settled, includes $20.4 million of capital projects to be filed for revenue recovery through advice letters when those projects are completed.

Excluding the advice letter project revenues, the water gross margin for 2019 in the settlement filing is expected to increase by approximately $6.0 million as compared to the 2018 adopted water gross margin. The 2019 water revenue requirement, as settled, has been reduced for a decrease of approximately $7.0 million in depreciation expense compared to the adopted 2018 depreciation expense due to a reduction in the overall composite depreciation rates based on a revised study filed in the general rate case. The decrease in depreciation expense lowers the water gross margin, and is offset by a corresponding decrease in depreciation expense, resulting in no impact to net earnings. In addition, the 2019 water revenue requirement, as settled, includes a decrease of approximately $2.2 million for excess deferred tax refunds as a result of the Tax Act, which has a corresponding decrease in income tax expense and also results in no impact to earnings. Had depreciation expense, as settled, remained the same as the 2018 adopted amount and there was no excess deferred tax refund that lowered the 2019 revenue requirement, the water gross margin for 2019 would have increased by approximately $15.2 million. The settlement as filed also allows for potential additional water revenue increases in 2020 and 2021 of approximately $10.0 million and $12.0 million, respectively, subject to the results of an earnings test and changes to the forecasted inflationary index values.

GSWC and CalPA informed the assigned Administrative Law Judge ("ALJ") that hearings would not be needed in light of the settlement agreement. Subsequently, the ALJ issued a ruling requesting additional information on a number of items in the general rate case. GSWC has provided the additional information requested by the ALJ and believes it has satisfied all of the questions raised. Both the ALJ's request and GSWC's response are public information. At this time, GSWC is awaiting a proposed decision by the ALJ, which is expected during the fourth quarter of 2018, with a final decision by the CPUC expected by the first quarter of 2019. When approved, the new rates will become effective January 1, 2019.

Electric Segment GRC:

In May 2017, GSWC filed its electric general rate case application with the CPUC to determine new electric rates for the years 2018 through 2021. GSWC and CalPA have reached a tentative settlement, which resolves all revenue requirement issues in this general rate case. A settlement conference with all parties in the rate case is scheduled for November 2018. Among other things, the tentative settlement incorporates a previous stipulation in the case, which authorizes a new return on equity for GSWC's electric segment of 9.60%. GSWC's prior authorized return on equity for its electric segment was 9.95%. The stipulation also included a capital structure and debt cost similar to those approved by the CPUC in March 2018 in connection with GSWC's water segment cost of capital proceeding, as discussed below. Because of the delay in finalizing the electric general rate case, year-to-date 2018 billed electric revenues have been based on 2017 adopted rates, pending a final decision by the CPUC in this rate case application. When a final decision is approved, the new electric rates will be retroactive to January 1, 2018.

Cost of Capital Proceeding for GSWC's Water Segment:

In March 2018, the CPUC issued a final decision in the cost of capital proceeding for GSWC and three other investor-owned water utilities that serve California. Among other things, the final decision adopts for GSWC (i) a return on equity of 8.90%, (ii) a cost of debt of 6.6%, (iii) a capital structure with 57% equity and 43% debt, (iv) a return on rate base of 7.91%, and (v) the continuation of the water cost of capital adjustment mechanism. GSWC's prior authorized return on equity and equity ratio for its water segment were 9.43% and 55%, respectively, with a return on rate base of 8.34%. The newly authorized return on rate base of 7.91% reflects a true-up of GSWC's embedded debt cost from 6.99% to 6.6%. The reduced debt costs contributed approximately 18 basis points to the 43-basis-point drop in the authorized return on rate base. The effects of the Tax Act discussed below and the lower return on rate base beginning in 2018 is expected to decrease GSWC's 2018 adopted annual revenue requirement by approximately $3.6 million, or $0.07 per share.

Contracted Services Segment:

Fort Riley:

On July 1, 2018, ASUS assumed the operation, maintenance and construction management of the water distribution and wastewater collection and treatment facilities at Fort Riley, a United States Army installation located in Kansas, after completing a transition period. The contract was awarded by the U.S. government in September 2017 with an initial value of $601 million over a 50-year period, subject to adjustments for the actual inventory level to be managed and the lower federal corporate income tax rate effective January 1, 2018. The 50-year contract will also be subject to annual economic price adjustments.

Eglin Air Force Base ("Eglin AFB"):

On June 15, 2017, ASUS assumed operations of the water and wastewater systems at Eglin AFB in Florida after completing a transition period and a detailed joint inventory study. The value of the 50-year contract is approximately $702.4 million. The contract is subject to annual economic price adjustments.

With the addition of Fort Riley and Eglin AFB, ASUS serves 11 military bases in the United Sates, including four of the largest military installations: Fort Bragg, Fort Bliss, Eglin AFB and Fort Riley.

Summary of Third Quarter Results by Segment

The table below sets forth the third quarter diluted earnings per share by business segment:

	Diluted Earnings per Share		
	Three Months Ended		
	9/30/2018	9/30/2017	CHANGE
Water	$ 0.47	$ 0.44	$ 0.03
Electric	0.02	0.03	(0.01)
Contracted services	0.13	0.10	0.03
Consolidated diluted earnings per share, as reported	$ 0.62	$ 0.57	$ 0.05

Water Segment:

Diluted earnings per share for the three months ended September 30, 2018 at the water segment increased by $0.03 per share as compared to the same period in 2017. Excluding the effects of the Tax Act and billed surcharges to recover previously incurred costs, both of which have no material impact to earnings, the following items affected the comparability between the two periods:

- An overall increase in the water gross margin, which increased net earnings by approximately $0.02 per share, was due primarily to third-year rate increases approved by the CPUC effective January 1, 2018. This increase was partially offset by the revenue impact from a lower authorized return on rate base approved in the cost of capital decision issued by the CPUC in March 2018, which was effective in 2018. The lower authorized return decreased the water gross margin during the three months ended September 30, 2018 by approximately $0.02 per share.
- An overall increase in operating expenses (other than supply costs), which decreased earnings by approximately $0.02 per share, was due primarily to higher employee-related benefits, depreciation expense and property taxes.
- A lower effective income tax rate (excluding the effects of the Tax Act), which increased earnings by approximately $0.03 per share, was due primarily to differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (primarily related to plant, rate case and compensation-related items). Flow-through adjustments increase or decrease tax expense in one period, with an offsetting decrease or increase in another period.

Electric Segment:

For the three months ended September 30, 2018, diluted earnings from the electric segment were $0.02 per share as compared to $0.03 per share for the same period in 2017. The decrease in earnings was largely due to an increase in operating expenses without an increase in customer rates due to delays in finalizing the pending electric general rate case. GSWC filed its electric general rate case in May 2017 for new rates in the years 2018 - 2021. Because of the delay, year-to-date 2018 billed revenues have been based on 2017 adopted rates, pending a final CPUC decision on the electric general rate case. When approved, the new rates will be retroactive to January 1, 2018.

Contracted Services Segment:

For the three months ended September 30, 2018, diluted earnings per share from the contracted services segment increased by $0.03 per share as compared to the same period in 2017 due, in large part, to the commencement of operations at Eglin AFB in June 2017 and at Fort Riley in July 2018, which resulted in an overall increase in contracted services revenue. This increase was partially offset by increases in operating expenses, largely related to the commencement of operations at Fort Riley in July 2018.

Summary of Year-to-Date Results by Segment

The table below sets forth the year-to-date diluted earnings per share by business segment:

	Diluted Earnings per Share		
	Nine Months Ended		
	9/30/2018	9/30/2017	CHANGE
Water, excluding one-time gain on sale of Ojai water system	$ 1.02	$ 1.04	$ (0.02)
Electric	0.08	0.09	(0.01)
Contracted services	0.24	0.26	(0.02)
AWR (parent)	0.01	0.01	—
Consolidated diluted earnings per share, adjusted	1.35	1.40	(0.05)
Gain on sale of Ojai water system	—	0.13	(0.13)
Consolidated diluted earnings per share, as reported	$ 1.35	$ 1.53	$ (0.18)

Water Segment:

Included in earnings for the first nine months of 2017 was the recognition of a pretax gain of $8.3 million, or $0.13 per share, on the sale of GSWC's Ojai water system in June of 2017, with no similar gain in 2018. In June 2017, GSWC sold its Ojai water system pursuant to a settlement agreement, which resolved an eminent domain action. Also included in earnings for the first nine months of 2017 was the recovery of incremental drought-related items approved by the CPUC in February 2017 resulting in an increase to pretax earnings of $1.5 million, or $0.02 per share in 2017, which did not recur in 2018. Approximately $1.2 million was reflected as a reduction to other operation expenses and approximately $260,000 was reflected as additional revenue. Excluding the effects of both items, diluted earnings per share from the water segment for each of the nine months ended September 30, 2018 and 2017 were $1.02 per share. The following items (excluding the effects of the Tax Act and surcharges, which have no material impact to earnings) affected the comparability between the two periods:

- An increase in the water gross margin, which increased net earnings by approximately $0.02 per share. This increase was due to the third-year rate increases effective January 1, 2018, partially offset by the revenue impact from the lower authorized return on rate base in the cost of capital proceeding approved by the CPUC and effective in 2018, as well as the cessation of the Ojai operations in June of 2017. The lower return on rate base beginning in 2018 is expected to decrease GSWC's 2018 adopted annual revenue requirement by approximately $3.6 million, or about $0.07 per share. Before reflecting the effects of the new cost of capital and the Tax Act, third-year rate increases are expected to add approximately $4.5 million to the 2018 full year adopted water gross margin, net of the cessation of the Ojai water system.

- An overall increase in operating expenses (excluding supply costs), which lowered net earnings by approximately $0.03 per share resulting primarily from higher employee-related benefits, maintenance, depreciation and property taxes as compared to the same period in 2017.

- An increase in interest expense (net of interest and other income), which lowered net earnings at the water segment by approximately $0.02 per share, due primarily to (i) higher short-term borrowings to fund operations and a portion of GSWC's capital expenditures, (ii) lower gains recorded on investments held to fund a retirement benefit plan resulting from recent market conditions, as compared to the same period in 2017, and (iii) amounts collected and recorded in 2017 from developers on certain outstanding balances, with no similar collections in 2018.

- A lower effective income tax rate (excluding the effects of the Tax Act), increasing earnings by approximately $0.03 per share resulting primarily from differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (primarily related to plant, rate case and compensation-related items).

Electric Segment:

For the nine months ended September 30, 2018, diluted earnings from the electric segment were $0.08 per share as compared to $0.09 per share for the same period in 2017. The decrease in earnings was due to an increase in operating expenses without increases in customer rates. As previously discussed, year-to-date 2018 billed revenues have been based on 2017 adopted rates, pending a final CPUC decision on the electric general rate case, which will be retroactive to January 1, 2018.

Contracted Services Segment:

For the nine months ended September 30, 2018, diluted earnings per share from the contracted services segment were $0.24 per share as compared to $0.26 per share for the same period in 2017. Included in the results for the nine months ended September 30, 2017 were retroactive revenues resulting from the approval of the third price redetermination at Fort Bragg, which totaled approximately $1.0 million, or $0.02 per share, related to periods prior to 2017. Excluding this retroactive amount, diluted earnings per share from the contracted services segment were $0.24 per share for the nine months ended September 30, 2018 and 2017. There were increases in management fee revenues generated from Eglin AFB and Fort Riley upon the commencement of the operation of their water and wastewater systems by ASUS in June 2017 and July 2018, respectively. These increases were largely offset by a decrease in overall construction revenue and increases in operating expenses, including operating costs incurred at Eglin AFB and Fort Riley upon commencement of their operations.

The following discussion and analysis for the three and nine months ended September 30, 2018 and 2017 provides information on AWR's consolidated operations and assets and, where necessary, includes specific references to AWR's individual segments and subsidiaries: GSWC and ASUS and its subsidiaries.

Consolidated Results of Operations — Three Months Ended September 30, 2018 and 2017 (amounts in thousands, except per share amounts):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 87,689	$ 91,919	$ (4,230)	(4.6)%
Electric	7,875	7,994	(119)	(1.5)%
Contracted services	28,618	24,505	4,113	16.8 %
Total operating revenues	124,182	124,418	(236)	(0.2)%
OPERATING EXPENSES				
Water purchased	21,842	20,576	1,266	6.2 %
Power purchased for pumping	3,217	2,913	304	10.4 %
Groundwater production assessment	5,961	5,870	91	1.6 %
Power purchased for resale	2,647	2,439	208	8.5 %
Supply cost balancing accounts	(5,212)	(4,621)	(591)	12.8 %
Other operation	8,355	7,657	698	9.1 %
Administrative and general	21,570	21,823	(253)	(1.2)%
Depreciation and amortization	10,118	9,854	264	2.7 %
Maintenance	3,422	3,222	200	6.2 %
Property and other taxes	4,692	4,475	217	4.8 %
ASUS construction	13,620	11,693	1,927	16.5 %
Gain on sale of assets	(25)	(17)	(8)	47.1 %
Total operating expenses	90,207	85,884	4,323	5.0 %
OPERATING INCOME	33,975	38,534	(4,559)	(11.8)%
OTHER INCOME AND EXPENSES				
Interest expense	(5,948)	(5,775)	(173)	3.0 %
Interest income	641	321	320	99.7 %
Other, net	1,223	434	789	181.8 %
	(4,084)	(5,020)	936	(18.6)%
INCOME BEFORE INCOME TAX EXPENSE	29,891	33,514	(3,623)	(10.8)%
Income tax expense	6,939	12,508	(5,569)	(44.5)%
NET INCOME	$ 22,952	$ 21,006	$ 1,946	9.3 %
Basic earnings per Common Share	$ 0.62	$ 0.57	$ 0.05	8.8 %
Fully diluted earnings per Common Share	$ 0.62	$ 0.57	$ 0.05	8.8 %

Operating Revenues:

<u>General</u>

GSWC relies upon approvals by the CPUC of rate increases to recover operating expenses and to provide for a return on invested and borrowed capital used to fund utility plant for GSWC. Registrant relies on economic price and equitable adjustments by the U.S. government in order to recover operating expenses and provide a profit margin for ASUS. Current operating revenues and earnings can be negatively impacted if the Military Privatization Subsidiaries do not receive adequate rate relief or adjustments in a timely manner. ASUS's earnings are also impacted by the level of additional construction projects at the Military Utility Privatization Subsidiaries, which may or may not continue at current levels in future periods.

<u>Water</u>

For the three months ended September 30, 2018, revenues from water operations decreased $4.2 million to $87.7 million as compared to the same period in 2017. This decrease was primarily due to: (i) downward adjustments to water revenue which were largely offset by lower income tax expense, thus no material impact to earnings, as a result of the Tax Act which reduced the federal corporate income tax rate, (ii) a lower authorized rate of return approved by the CPUC in the March 2018 final decision on the water cost of capital application, and (iii) decreases related to the expiration of various surcharges that were in place to recover previously incurred costs. These surcharge revenues were offset by a corresponding decrease in operating expenses (primarily administrative and general), resulting in no impact to earnings. These decreases in water revenue were partially offset by CPUC-approved third-year rate increases effective January 1, 2018.

Billed water consumption for the third quarter of 2018 increased by approximately 2% as compared to the same period in 2017. In general, changes in consumption do not have a significant impact on recorded revenues due to the CPUC-approved Water Revenue Adjustment Mechanism ("WRAM") accounts in place at all but one small rate-making area. However, under the accounting guidance for alternative revenue programs such as the WRAM, significant decreases in consumption may impact the timing of when revenues are recorded. GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC in the WRAM accounts as regulatory assets or liabilities.

<u>Electric</u>

For the three months ended September 30, 2018, revenues from electric operations decreased slightly to $7.9 million as compared to $8.0 million for the same period in 2017 resulting primarily from downward adjustments to electric revenue to offset lower income tax expense, thus having no material impact to earnings, as a result of the Tax Act. Excluding the effects of the Tax Act, electric revenue remained relatively flat due to the delay in finalizing the electric general rate case. GSWC filed its electric general rate case in May 2017 for new rates in the years 2018 - 2021. Because of the delay, year-to-date 2018 billed revenues have been based on 2017 adopted rates, pending a final CPUC decision on the electric general rate case. When approved, the new rates will be retroactive to January 1, 2018.

Billed electric usage increased 1% during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. Due to the CPUC-approved Base Revenue Requirement Adjustment Mechanism, which adjusts certain revenues to adopted levels authorized by the CPUC, changes in usage do not have a significant impact on earnings.

<u>Contracted Services</u>

Revenues from contracted services are composed of construction revenues (including renewal and replacements) and management fees for operating and maintaining the water and/or wastewater systems and treatment plants at various military bases. For the three months ended September 30, 2018, revenues from contracted services increased $4.1 million to $28.6 million as compared to $24.5 million for the same period in 2017 due largely to the commencement of operations at Eglin AFB in June 2017 and at Fort Riley in July 2018, which resulted in increases in construction revenue. There was also an increase in management fee revenue due to the commencement of operations at Fort Riley.

ASUS subsidiaries continue to enter into U.S. government-awarded contract modifications and agreements with third-party prime contractors for new construction projects at the Military Utility Privatization Subsidiaries. During 2018, ASUS has been awarded approximately $23 million in new construction projects, some of which have been or are expected to be completed during 2018, and the remainder in 2019. Earnings and cash flows from modifications to the original 50-year contracts with the U.S. government and agreements with third-party prime contractors for additional construction projects may or may not continue in future periods.

Operating Expenses:

Supply Costs

Supply costs for the water segment consist of purchased water, purchased power for pumping, groundwater production assessments and changes in the water supply cost balancing accounts. Supply costs for the electric segment consist of purchased power for resale, the cost of natural gas used by BVES's generating unit, the cost of renewable energy credits and changes in the electric supply cost balancing account. Water and electric gross margins are computed by subtracting total supply costs from total revenues. Registrant uses these gross margins and related percentages as an important measure in evaluating its operating results. Registrant believes these measures are useful internal benchmarks in evaluating the utility business performance within its water and electric segments. Registrant reviews these measurements regularly and compares them to historical periods and to its operating budget. However, these measures, which are not presented in accordance with GAAP, may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income, which is determined in accordance with GAAP.

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for approximately 31.5% and 31.6% of total operating expenses for the three months ended September 30, 2018 and 2017, respectively.

The table below provides the amount of increases (decreases) and percent changes in water and electric revenues, supply costs and gross margin during the three months ended September 30, 2018 and 2017 (dollar amounts in thousands). As previously discussed, water and electric revenues for the three months ended September 30, 2018 were adjusted downward by $4.2 million and $125,000, respectively, to reflect the effects of the Tax Act, but had no significant impact to earnings due to a corresponding decrease in water and electric income tax expense. Furthermore, there was a decrease in surcharges of $2.0 million recorded in water revenues to recover previously incurred costs, which also did not impact water earnings. Surcharges to recover previously incurred costs are recorded to revenues when billed to customers and are offset by a corresponding amount in operating expenses (primarily administrative and general), resulting in no impact to earnings.

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	$ CHANGE	% CHANGE
WATER OPERATING REVENUES (1)	$ 87,689	$ 91,919	$ (4,230)	(4.6)%
WATER SUPPLY COSTS:				
Water purchased (1)	$ 21,842	$ 20,576	$ 1,266	6.2 %
Power purchased for pumping (1)	3,217	2,913	304	10.4 %
Groundwater production assessment (1)	5,961	5,870	91	1.6 %
Water supply cost balancing accounts (1)	(5,639)	(5,245)	(394)	7.5 %
TOTAL WATER SUPPLY COSTS	$ 25,381	$ 24,114	$ 1,267	5.3 %
WATER GROSS MARGIN (2)	$ 62,308	$ 67,805	$ (5,497)	(8.1)%
ELECTRIC OPERATING REVENUES (1)	$ 7,875	$ 7,994	$ (119)	(1.5)%
ELECTRIC SUPPLY COSTS:				
Power purchased for resale (1)	$ 2,647	$ 2,439	$ 208	8.5 %
Electric supply cost balancing accounts (1)	427	624	(197)	(31.6)%
TOTAL ELECTRIC SUPPLY COSTS	$ 3,074	$ 3,063	$ 11	0.4 %
ELECTRIC GROSS MARGIN (2)	$ 4,801	$ 4,931	$ (130)	(2.6)%

(1) As reported on AWR's Consolidated Statements of Income, except for supply cost balancing accounts. The sum of water and electric supply cost balancing accounts in the table above are shown on AWR's Consolidated Statements of Income and totaled $(5,212,000) and $(4,621,000) for the three months ended September 30, 2018 and 2017, respectively. Revenues include surcharges to recover previously incurred costs, which increases both revenues and operating expenses by corresponding amounts, thus having no net earnings impact.

(2) Water and electric gross margins do not include any depreciation and amortization, maintenance, administrative and general, property or other taxes or other operation expenses.

Two of the principal factors affecting water supply costs are the amount of water produced and the source of the water. Generally, the variable cost of producing water from wells is less than the cost of water purchased from wholesale suppliers. Under the CPUC-approved Modified Cost Balancing Account ("MCBA"), GSWC tracks adopted and actual expense levels for purchased water, power purchased for pumping and pump taxes. GSWC records the variances (which include the effects of changes in both rate and volume) between adopted and actual purchased water, purchased power and pump tax expenses. GSWC recovers from or refunds to customers the amount of such variances. GSWC tracks these variances individually for each water ratemaking area.

The overall actual percentages of purchased water for each of the three months ended September 30, 2018 and 2017 were 43%, as compared to the adopted percentage of approximately 30% for each of the three months ended September 30, 2018 and 2017. The higher actual percentages of purchased water as compared to the adopted percentages resulted from an increase in purchase water costs due to several wells being out of service.

Purchased water costs for the three months ended September 30, 2018 increased to $21.8 million as compared to $20.6 million for the same period in 2017 primarily due to an increase in customer usage, as well as an increase in wholesale water costs as compared to the three months ended September 30, 2017.

Power purchased for pumping for the three months ended September 30, 2018 increased to $3.2 million as compared to $2.9 million for the same period in 2017 primarily due to an increase in customer usage.

The under-collection in the water supply cost balancing account increased $394,000 during the three months ended September 30, 2018 as compared to the same period in 2017 due to the higher supply mix percentage of purchased water versus pumped water.

For the three months ended September 30, 2018, the cost of power purchased for resale to BVES's customers increased to $2.6 million, as compared to $2.4 million for the three months ended September 30, 2017, due to an increase in the average price per megawatt-hour ("MWh"). The average price per MWh, including fixed costs, increased from $73.81 for the three months ended September 30, 2017 to $81.95 for the same period in 2018.

Other Operation

The primary components of other operation expenses for GSWC include payroll, materials and supplies, chemicals and water treatment costs and outside service costs of operating the regulated water systems, including the costs associated with water transmission and distribution, pumping, water quality, meter reading, billing and operations of district offices. Registrant's contracted services operations incur many of the same types of expenses as well. For the three months ended September 30, 2018 and 2017, other operation expenses by business segment consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 5,820	$ 5,817	$ 3	0.1%
Electric Services	750	676	74	10.9%
Contracted Services	1,785	1,164	621	53.4%
Total other operation	$ 8,355	$ 7,657	$ 698	9.1%

For the three months ended September 30, 2018, other operation expenses for the contracted services segment increased largely due to the commencement of operations at Fort Riley on July 1, 2018, as well as increases in labor costs incurred at the other ASUS subsidiaries.

Administrative and General

Administrative and general expenses include payroll related to administrative and general functions, employee-related benefits, insurance expenses, outside legal and consulting fees, regulatory utility commission expenses, expenses associated with being a public company and general corporate expenses charged to expense accounts. For the three months ended September 30, 2018 and 2017, administrative and general expenses by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 14,268	$ 15,223	$ (955)	(6.3)%
Electric Services	2,099	1,706	393	23.0 %
Contracted Services	5,201	4,891	310	6.3 %
AWR (parent)	2	3	(1)	(33.3)%
Total administrative and general	$ 21,570	$ 21,823	$ (253)	(1.2)%

During the three months ended September 30, 2018, administrative and general expenses for the water segment decreased $955,000 due, in large part, to lower surcharges billed for the recovery of administrative and general costs as compared to the same period in 2017. The decrease in revenues and water gross margin from these surcharges is offset by a corresponding decrease in operating expenses (primarily administrative and general) resulting in no impact to earnings. Excluding surcharges, administrative and general expenses for the water segment increased $888,000 due primarily to higher employee-related expenses, partially offset by lower legal and other outside services costs.

For the three months ended September 30, 2018, administrative and general expenses for the electric segment increased by $393,000 due to higher regulatory costs incurred in connection with the pending electric general rate case, as well as higher legal and other outside services costs.

For the three months ended September 30, 2018, administrative and general expenses for contracted services increased by $310,000 due primarily to an increase in labor and other employee-related benefits incurred for Fort Riley.

Depreciation and Amortization

For the three months ended September 30, 2018 and 2017, depreciation and amortization by business segment consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 9,058	$ 8,972	$ 86	1.0%
Electric Services	565	537	28	5.2%
Contracted Services	495	345	150	43.5%
Total depreciation and amortization	$ 10,118	$ 9,854	$ 264	2.7%

Depreciation expense overall increased by $264,000 during the three months ended September 30, 2018, due largely to an increase in fixed assets at the contracted services segment.

Maintenance

For the three months ended September 30, 2018 and 2017, maintenance expense by business segment consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 2,421	$ 2,513	$ (92)	(3.7)%
Electric Services	288	179	109	60.9 %
Contracted Services	713	530	183	34.5 %
Total maintenance	$ 3,422	$ 3,222	$ 200	6.2 %

Maintenance expense increased for the three months ended September 30, 2018 due to tree trimming and unplanned maintenance costs incurred at the electric segment, as well as maintenance costs incurred at Fort Riley for the contracted services segment.

Property and Other Taxes

For the three months ended September 30, 2018 and 2017, property and other taxes by business segment consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 4,033	$ 3,887	$ 146	3.8%
Electric Services	267	257	10	3.9%
Contracted Services	392	331	61	18.4%
Total property and other taxes	$ 4,692	$ 4,475	$ 217	4.8%

Property and other taxes increased overall by $217,000 during the three months ended September 30, 2018 due primarily to capital additions and the associated higher assessed property values.

ASUS Construction

For the three months ended September 30, 2018, construction expenses for contracted services were $13.6 million, increasing $1.9 million compared to the same period in 2017, largely due to construction activity related to Eglin AFB and Fort Riley.

Interest Expense

For the three months ended September 30, 2018 and 2017, interest expense by business segment, including AWR (parent) consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 5,472	$ 5,290	$ 182	3.4 %
Electric Services	309	348	(39)	(11.2)%
Contracted Services	73	62	11	17.7 %
AWR (parent)	94	75	19	25.3 %
Total interest expense	$ 5,948	$ 5,775	$ 173	3.0 %

The increase in interest expense is due to higher borrowings on the revolving credit facility as compared to the third quarter of 2017. Registrant expects to continue borrowing on its revolving credit facility to fund operations and a portion of its capital expenditures. In addition, GSWC has a $40 million note which matures in March 2019. Registrant expects to borrow on its revolving credit facility and/or issue additional long-term debt to fund the repayment of this note by March 2019.

Interest Income

For the three months ended September 30, 2018 and 2017, interest income by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 433	$ 316	$ 117	37.0%
Electric Services	18	2	16	*
Contracted Services	191	4	187	*
AWR (parent)	(1)	(1)	—	—%
Total interest income	$ 641	$ 321	$ 320	99.7%

* not meaningful

The increase in interest income for the water segment is due, in part, to the receipt of a quarterly interest payment related to a settlement agreement entered into during the fourth quarter of 2017. The increase in interest income for contracted services during the three months ended September 30, 2018, was due to Registrant's adoption of ASC Topic 606 (*Revenues from Contracts with Customers)* on January 1, 2018 using the modified retrospective approach. As a result of this adoption, certain funds received by the contracted services segment from the U.S. government during the three months ended September 30, 2018 have been recorded to interest income. Prior to the adoption of ASC Topic 606, these funds were recorded as revenues.

Other income, net

For the three months ended September 30, 2018, other income increased by $789,000 due, in part, to higher gains recorded on investments as compared to the same period in 2017. In addition, there was a decrease in the non-service cost components of net periodic benefit costs related to Registrant's defined benefit pension plans and other retirement benefits as compared to the same period in 2017. However, as a result of GSWC's pension balancing account authorized by the CPUC, changes in net periodic benefit costs are mostly offset by corresponding changes in revenues, having no material impact to earnings.

Income Tax Expense

For the three months ended September 30, 2018 and 2017, income tax expense by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 5,247	$ 10,544	$ (5,297)	(50.2)%
Electric Services	167	269	(102)	(37.9)%
Contracted Services	1,606	1,944	(338)	(17.4)%
AWR (parent)	(81)	(249)	168	(67.5)%
Total income tax expense	$ 6,939	$ 12,508	$ (5,569)	(44.5)%

Consolidated income tax expense for the three months ended September 30, 2018 decreased by $5.6 million due primarily to a decrease in pretax income as well as a lower federal corporate income tax rate as a result of the Tax Act. AWR's consolidated effective income tax rate ("ETR") was 23.2% for the three months ended September 30, 2018 as compared to 37.3% for the three months ended September 30, 2017. GSWC's ETR decreased to 23.2% for the three months ended September 30, 2018 as compared to 38.4% applicable to the three months ended September 30, 2017.

Consolidated Results of Operations — Nine Months Ended September 30, 2018 and 2017 (amounts in thousands, except per share amounts):

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 228,834	$ 239,057	$ (10,223)	(4.3)%
Electric	25,548	26,108	(560)	(2.1)%
Contracted services	71,429	71,258	171	0.2 %
Total operating revenues	325,811	336,423	(10,612)	(3.2)%
OPERATING EXPENSES				
Water purchased	52,057	50,619	1,438	2.8 %
Power purchased for pumping	7,141	6,667	474	7.1 %
Groundwater production assessment	15,146	14,176	970	6.8 %
Power purchased for resale	8,439	7,847	592	7.5 %
Supply cost balancing accounts	(11,110)	(11,663)	553	(4.7)%
Other operation	24,125	21,989	2,136	9.7 %
Administrative and general	62,076	62,519	(443)	(0.7)%
Depreciation and amortization	29,794	29,184	610	2.1 %
Maintenance	10,921	10,292	629	6.1 %
Property and other taxes	13,863	13,386	477	3.6 %
ASUS construction	35,168	34,589	579	1.7 %
Gain on sale of assets	(43)	(8,318)	8,275	(99.5)%
Total operating expenses	247,577	231,287	16,290	7.0 %
OPERATING INCOME	78,234	105,136	(26,902)	(25.6)%
OTHER INCOME AND EXPENSES				
Interest expense	(17,919)	(17,606)	(313)	1.8 %
Interest income	1,813	1,200	613	51.1 %
Other, net	1,844	1,439	405	28.1 %
	(14,262)	(14,967)	705	(4.7)%
INCOME BEFORE INCOME TAX EXPENSE	63,972	90,169	(26,197)	(29.1)%
Income tax expense	13,890	33,670	(19,780)	(58.7)%
NET INCOME	$ 50,082	$ 56,499	$ (6,417)	(11.4)%
Basic earnings per Common Share	$ 1.36	$ 1.53	$ (0.17)	(11.1)%
Fully diluted earnings per Common Share	$ 1.35	$ 1.53	$ (0.18)	(11.8)%

Operating Revenues:

Water

For the nine months ended September 30, 2018, revenues from water operations decreased $10.2 million to $228.8 million as compared to the same period in 2017. This decrease was primarily due to: (i) downward adjustments to water revenue which were largely offset by lower income tax expense, thus no material impact to earnings, as a result of the Tax Act which reduced the federal corporate income tax rate, (ii) the cessation of Ojai operations as a result of the sale of that water system in June 2017 under an eminent domain action, (iii) a lower authorized rate of return approved by the CPUC in March 2018, and (iv) the expiration of certain surcharges to recover previously incurred costs that were implemented in 2017. These decreases were partially offset by CPUC-approved third-year rate increases effective January 1, 2018.

Billed water consumption for the first nine months of 2018 increased approximately 6% as compared to the same period in 2017. Changes in consumption generally do not have a significant impact on revenues due to the WRAM.

Electric

For the nine months ended September 30, 2018, revenues from electric operations were $25.5 million as compared to $26.1 million for the same period in 2017 resulting primarily from downward adjustments to electric revenue to offset lower income tax expense, thus having no material impact to earnings, as a result of the Tax Act. Excluding the effects of the Tax Act, electric revenue remained relatively flat due to the delay in finalizing the electric general rate case. GSWC filed its electric general rate case in May 2017 for new rates in the years 2018 - 2021. Because of the delay, year-to-date 2018 billed revenues have been based on 2017 adopted rates, pending a final CPUC decision on the electric general rate case. When approved, the new rates will be retroactive to January 1, 2018.

Billed electric usage decreased by approximately 1% during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. Due to the CPUC-approved Base Revenue Requirement Adjustment Mechanism, which adjusts certain revenues to adopted levels authorized by the CPUC, changes in usage do not have a significant impact on earnings.

Contracted Services

For the nine months ended September 30, 2018, revenues from contracted services increased slightly to $71.4 million as compared to $71.3 million for the same period in 2017. In June of 2017, the U.S. government approved the third price redetermination for Fort Bragg resulting in an increase in management fees, including approximately $1.0 million related to periods prior to 2017. There were no similar retroactive revenues recorded in 2018. There were increases in management fees during the nine months ended September 30, 2018 due to the successful resolution of various price adjustments during 2017 and 2018, as well as revenues generated from the commencement of operations at Eglin AFB in June 2017 and at Fort Riley in July 2018. These increases were offset by decreases in overall construction revenue at the other military bases compared to the same period in 2017.

Operating Expenses:

Supply Costs

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for approximately 28.9% and 29.2% of total operating expenses for the nine months ended September 30, 2018 and 2017, respectively. The table below provides the amount of increases (decreases) and percent changes in water and electric revenues, supply costs and gross margin during the nine months ended September 30, 2018 and 2017 (dollar amounts in thousands). As previously discussed, water and electric revenues for the nine months ended September 30, 2018 were adjusted downward by $10.7 million and $848,000, respectively, to reflect the effects of the Tax Act, but had no significant impact to earnings due to a corresponding decrease in water and electric income tax expense. Furthermore, there was a decrease in surcharges of $3.1 million recorded in water revenues to recover previously incurred costs, which also did not impact water earnings. Surcharges to recover previously incurred costs are recorded to revenues when billed to customers and are offset by a corresponding amount in operating expenses (primarily administrative and general), resulting in no impact to earnings.

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	$ CHANGE	% CHANGE
WATER OPERATING REVENUES (1)	$ 228,834	$ 239,057	$ (10,223)	(4.3)%
WATER SUPPLY COSTS:				
Water purchased (1)	$ 52,057	$ 50,619	$ 1,438	2.8 %
Power purchased for pumping (1)	7,141	6,667	474	7.1 %
Groundwater production assessment (1)	15,146	14,176	970	6.8 %
Water supply cost balancing accounts (1)	(12,478)	(13,785)	1,307	(9.5)%
TOTAL WATER SUPPLY COSTS	$ 61,866	$ 57,677	$ 4,189	7.3 %
WATER GROSS MARGIN (2)	$ 166,968	$ 181,380	$ (14,412)	(7.9)%
ELECTRIC OPERATING REVENUES (1)	$ 25,548	$ 26,108	$ (560)	(2.1)%
ELECTRIC SUPPLY COSTS:				
Power purchased for resale (1)	$ 8,439	$ 7,847	$ 592	7.5 %
Electric supply cost balancing accounts (1)	1,368	2,122	(754)	(35.5)%
TOTAL ELECTRIC SUPPLY COSTS	$ 9,807	$ 9,969	$ (162)	(1.6)%
ELECTRIC GROSS MARGIN (2)	$ 15,741	$ 16,139	$ (398)	(2.5)%

(1) As reported on AWR's Consolidated Statements of Income, except for supply cost balancing accounts. The sum of water and electric supply cost balancing accounts in the table above are shown on AWR's Consolidated Statements of Income and totaled $(11,110,000) and $(11,663,000) for the nine months ended September 30, 2018 and 2017, respectively. Revenues include surcharges to recover previously incurred costs, which increases both revenues and operating expenses by corresponding amounts, thus having no net earnings impact.

(2) Water and electric gross margins do not include any depreciation and amortization, maintenance, administrative and general, property or other taxes or other operation expenses.

The overall actual percentages of purchased water for the nine months ended September 30, 2018 and 2017 were 41% and 43%, respectively, as compared to the adopted percentage of approximately 29% for the nine months ended September 30, 2018 and 2017. The higher actual percentages of purchased water as compared to adopted percentages resulted primarily from several wells being out of service.

Purchased water costs for the nine months ended September 30, 2018 increased to $52.1 million as compared to $50.6 million for the same period in 2017 primarily due to an increase in wholesale water costs as well as an increase in customer usage.

For the nine months ended September 30, 2018 and 2017, groundwater production assessments increased $1.0 million due to an increase in the amount of water pumped, as well as an increase in pump tax rates for the nine months ended September 30, 2018 as compared to the same period in 2017.

The under-collection in the water supply cost balancing account increased $1.3 million during the nine months ended September 30, 2018 as compared to the same period in 2017 mainly due to the higher actual percentages of purchased water as compared to adopted percentages that resulted primarily from several wells being out of service.

For the nine months ended September 30, 2018, the cost of power purchased for resale to BVES's customers increased by $592,000 to $8.4 million as compared to $7.8 million for the same period in 2017 due primarily to an increase in the average price per megawatt-hour ("MWh"). The average price per MWh, including fixed costs, increased from $74.17 for the nine months ended September 30, 2017 to $80.14 for the same period in 2018. The over-collection in the electric supply cost balancing account decreased by $754,000 due primarily to this increase in the weighted average price per MWh.

Other Operation

For the nine months ended September 30, 2018 and 2017, other operation expenses by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 17,307	$ 16,100	$ 1,207	7.5%
Electric Services	2,116	2,042	74	3.6%
Contracted Services	4,702	3,847	855	22.2%
Total other operation	$ 24,125	$ 21,989	$ 2,136	9.7%

For the nine months ended September 30, 2018, total other operation expenses for the water segment increased overall by $1.2 million as compared to the same period in 2017 due to the CPUC's approval for recovery of $1.2 million in incremental drought-related costs, which was recorded as a regulatory asset with a corresponding decrease in other operation expenses during the first quarter of 2017. There was no similar reduction recorded in 2018.

For the nine months ended September 30, 2018, other operation expenses for the contracted services segment increased by $855,000 due primarily to the commencement of operations at Fort Riley.

Administrative and General

For the nine months ended September 30, 2018 and 2017, administrative and general expenses by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 40,833	$ 43,037	$ (2,204)	(5.1)%
Electric Services	5,860	5,248	612	11.7 %
Contracted Services	15,376	14,226	1,150	8.1 %
AWR (parent)	7	8	(1)	(12.5)%
Total administrative and general	$ 62,076	$ 62,519	$ (443)	(0.7)%

For the nine months ended September 30, 2018, administrative and general expenses at the water segment decreased due, in large part, to lower surcharges billed for recovery of various administrative and general costs previously incurred, as compared to the first nine months of 2017. As previously discussed, surcharges are recorded in revenue with a corresponding and offsetting amount recorded to administrative and general expenses, having no impact on earnings. Excluding surcharges, administrative and general expenses for the water segment increased $1.4 million due primarily to higher employee-related expenses, partially offset by lower legal and other outside services costs.

For the nine months ended September 30, 2018, administrative and general expenses for the electric segment increased by $612,000 due to higher regulatory costs in connection with the pending electric general rate case, as well as higher legal and other outside services costs.

For the nine months ended September 30, 2018, administrative and general expenses for contracted services increased by $1.2 million as compared to the nine months ended September 30, 2017 due primarily to higher expenses for Eglin AFB and Fort Riley, which ASUS began operating on June 15, 2017 and July 1, 2018, respectively.

Depreciation and Amortization

For the nine months ended September 30, 2018 and 2017, depreciation and amortization by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 26,693	$ 26,731	$ (38)	(0.1)%
Electric Services	1,694	1,610	84	5.2 %
Contracted Services	1,407	843	564	66.9 %
Total depreciation and amortization	$ 29,794	$ 29,184	$ 610	2.1 %

For the nine months ended September 30, 2018, depreciation and amortization expense for water services overall decreased due to plant retirements that occurred during the fourth quarter of 2017, which further reduced depreciation expense for the first nine months of 2018 as compared to the same period last year. These decreases were partially offset by plant additions.

The increase in depreciation for the contracted services segment was due to vehicle and other equipment additions to fixed assets during the nine months ended September 30, 2018 partly associated with the commencement of operations at Eglin AFB and Fort Riley.

Maintenance

For the nine months ended September 30, 2018 and 2017, maintenance expense by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 8,236	$ 8,111	$ 125	1.5%
Electric Services	798	551	247	44.8%
Contracted Services	1,887	1,630	257	15.8%
Total maintenance	$ 10,921	$ 10,292	$ 629	6.1%

Maintenance expense for the electric segment increased by $247,000 due to an increase in tree trimming and unplanned maintenance. Maintenance expense for contracted services increased largely due to maintenance costs incurred at Eglin AFB and Fort Riley, which ASUS began operating on June 15, 2017 and July 1, 2018, respectively

Property and Other Taxes

For the nine months ended September 30, 2018 and 2017, property and other taxes by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 11,889	$ 11,517	$ 372	3.2%
Electric Services	801	799	2	0.3%
Contracted Services	1,173	1,070	103	9.6%
Total property and other taxes	$ 13,863	$ 13,386	$ 477	3.6%

Property and other taxes increased overall by $477,000 during the nine months ended September 30, 2018 due primarily to capital additions and the associated higher assessed property values.

ASUS Construction

For the nine months ended September 30, 2018, construction expenses for contracted services were $35.2 million, increasing $579,000 compared to the same period in 2017 due, in part, to additional costs incurred in certain locations where ASUS experienced more difficult site conditions as compared to the same period in 2017.

Gain on Sale of Assets

In June 2017, GSWC completed the sale of its Ojai water system for $34.3 million resulting in a pretax gain of $8.3 million recorded during the nine months ended September 30, 2017.

Interest Expense

For the nine months ended September 30, 2018 and 2017, interest expense by business segment, including AWR (parent) consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 16,352	$ 16,092	$ 260	1.6 %
Electric Services	1,045	1,078	(33)	(3.1)%
Contracted Services	271	228	43	18.9 %
AWR (parent)	251	208	43	20.7 %
Total interest expense	$ 17,919	$ 17,606	$ 313	1.8 %

For the nine months ended September 30, 2018, interest expense increased $313,000 due largely to higher borrowings on the revolving credit facility as compared to the first nine months of 2017. Registrant expects to continue borrowing on its revolving credit facility to fund operations and a portion of its capital expenditures. In addition, GSWC has a $40 million note which matures in March 2019. Registrant expects to borrow on its revolving credit facility and/or issue additional long-term debt to fund the repayment of this note by March 2019.

Interest Income

For the nine months ended September 30, 2018 and 2017, interest income by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 1,257	$ 1,168	$ 89	7.6%
Electric Services	31	7	24	*
Contracted Services	526	14	512	*
AWR (parent)	(1)	11	(12)	*
Total interest income	$ 1,813	$ 1,200	$ 613	51.1%

* not meaningful

The increase in interest income for contracted services during the nine months ended September 30, 2018, was due to Registrant's adoption of ASC Topic 606 (*Revenues from Contracts with Customers)* on January 1, 2018 using the modified retrospective approach. As a result of this adoption, certain funds received by the contracted services segment from the U.S. government during the nine months ended September 30, 2018 have been recorded to interest income. Prior to the adoption of ASC Topic 606, these funds were recorded as revenues.

Other, net

For the nine months ended September 30, 2018, other income increased by $405,000 largely due to a decrease in the non-service cost components of net periodic benefit costs related to Registrant's defined benefit pension plans and other retirement benefits. However, as a result of GSWC's pension balancing account authorized by the CPUC, changes in net periodic benefit costs are mostly offset by corresponding changes in revenues, having no material impact to earnings. Excluding this change, other income decreased due to (i) lower gains recorded on investments as compared to the same period in 2017 and (ii) amounts collected and recorded in 2017 from developers on certain outstanding balances, with no similar collections in 2018.

Income Tax Expense

For the nine months ended September 30, 2018 and 2017, income tax expense by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	$ CHANGE	% CHANGE
Water Services	$ 10,805	$ 27,739	$ (16,934)	(61.0)%
Electric Services	938	1,496	(558)	(37.3)%
Contracted Services	2,865	5,152	(2,287)	(44.4)%
AWR (parent)	(718)	(717)	(1)	0.1 %
Total income tax expense	$ 13,890	$ 33,670	$ (19,780)	(58.7)%

Consolidated income tax expense for the nine months ended September 30, 2018 decreased by approximately $19.8 million due primarily to a lower federal corporate income tax rate as a result of the Tax Act, as well as a decrease in pretax income, which resulted, in large part, from the cessation of operations from GSWC's Ojai water system and related pretax gain recognized on the sale of the system in June 2017. AWR's consolidated ETR decreased to 21.7% for the nine months ended September 30, 2018 as compared to 37.3% for the nine months ended September 30, 2017. GSWC's ETR decreased to 22.5% for the nine months ended September 30, 2018 as compared to 38.6% for the nine months ended September 30, 2017. Both decreases were due primarily to the reduction in the federal corporate income tax rate from 35% to 21%.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that are important to the portrayal of AWR's financial condition, results of operations and cash flows, and require the most difficult, subjective or complex judgments of AWR's management. The need to make estimates about the effect of items that are uncertain is what makes these judgments difficult, subjective and/or complex. Management makes subjective judgments about the accounting and regulatory treatment of many items. These judgments are based on AWR's historical experience, terms of existing contracts, AWR's observance of trends in the industry, and information available from other outside sources, as appropriate. Actual results may differ from these estimates under different assumptions or conditions.

The critical accounting policies used in the preparation of the Registrant's financial statements that it believes affect the more significant judgments and estimates used in the preparation of its consolidated financial statements presented in this report are described in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in Registrant's Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes to Registrant's critical accounting policies.

Liquidity and Capital Resources

AWR

Registrant's regulated business is capital intensive and requires considerable capital resources. A portion of these capital resources is provided by internally generated cash flows from operations. AWR anticipates that interest expense will increase due to the need for additional external capital to fund its construction program and increases in market interest rates. AWR believes that costs associated with capital used to fund construction at GSWC will continue to be recovered through water and electric rates charged to customers. AWR funds its operating expenses and pays dividends on its outstanding Common Shares primarily through dividends from its wholly owned subsidiaries. The ability of GSWC to pay dividends to AWR is restricted by California law. Under these restrictions, approximately $243.7 million was available on September 30, 2018 to pay dividends to AWR.

When necessary, Registrant obtains funds from external sources in the capital markets and through bank borrowings. Access to external financing on reasonable terms depends on the credit ratings of AWR and GSWC and current business conditions, including that of the water utility industry in general as well as conditions in the debt or equity capital markets. AWR also has access to a $150.0 million revolving credit facility, which was renewed in May 2018. As of September 30, 2018, there were $70.0 million in borrowings outstanding under this facility and $940,000 of letters of credit outstanding. These amounts are contractually due in May 2023 under the terms of the renewed credit facility and are generally priced off a spread to LIBOR. As of September 30, 2018, AWR had $79.1 million available to borrow under the credit facility. AWR also has the option to increase the borrowing capacity of the credit facility by an additional $50 million, if needed.

AWR borrows under this facility and provides funds to its subsidiaries, GSWC and ASUS, in support of their operations. The interest charged to GSWC and ASUS is sufficient to cover AWR's interest expense under the credit facility. Amounts owed to AWR by GSWC, including for allocated expenses, are included in GSWC's intercompany payable under "Current Liabilities". In March of 2019, $40 million of GSWC's 6.70% senior note will mature. GSWC intends to borrow under its intercompany borrowing arrangement with AWR and/or issue additional long-term debt to fund the repayment of this note.

In April 2018, Standard and Poor's Global Ratings ("S&P") affirmed an A+ credit rating with a stable outlook on both AWR and GSWC. S&P's debt ratings range from AAA (highest possible) to D (obligation is in default). In December 2017, Moody's Investors Service ("Moody's") affirmed its A2 rating with a revised rating outlook from stable to positive for GSWC. Securities ratings are not recommendations to buy, sell or hold a security and are subject to change or withdrawal at any time by the rating agencies. Registrant believes that AWR's sound capital structure and strong credit ratings, combined with its financial discipline, will enable AWR to access the debt and equity markets. However, unpredictable financial market conditions in the future may limit its access or impact the timing of when to access the market, in which case, Registrant may choose to temporarily reduce its capital spending. During the nine months ended September 30, 2018, GSWC incurred $79.2 million in company-funded capital expenditures.

AWR intends to continue paying quarterly cash dividends on or about March 1, June 1, September 1 and December 1, subject to earnings and financial conditions, regulatory requirements and such other factors as the Board of Directors may deem relevant. Registrant has paid common dividends for over 80 consecutive years. On October 30, 2018, AWR's Board of Directors approved a fourth quarter dividend of $0.275 per share on AWR's Common Shares. Dividends on the Common Shares are payable on December 3, 2018 to shareholders of record at the close of business on November 15, 2018. AWR's current policy is to achieve a five-year compound annual growth rate in the dividend of more than 6% over the long term.

Registrant's current liabilities may at times exceed its current assets. Management believes that internally generated funds along with AWR's ability to access the debt and equity markets as well as borrowings from its credit facility, are adequate to provide sufficient capital to maintain normal operations and to meet its capital and financing requirements, including repayment of the $40 million note, which matures in March 2019.

Cash Flows from Operating Activities:

Cash flows from operating activities have generally provided sufficient cash to fund operating requirements, including a portion of construction expenditures at GSWC, construction expenses at ASUS, and pay dividends. Registrant’s future cash flows from operating activities are expected to be affected by a number of factors, including utility regulation; changes in tax law and deferred taxes; maintenance expenses; inflation; compliance with environmental, health and safety standards; production costs; customer growth; per customer usage of water and electricity; weather and seasonality; conservation efforts; compliance with local governmental requirements, including mandatory restrictions on water use; and required cash contributions to pension and post-retirement plans. Future cash flows from contracted services subsidiaries will depend on new business activities, existing operations, the construction of new and/or replacement infrastructure at military bases, timely economic price and equitable adjustment of prices and timely collection of payments from the U.S. government and other prime contractors operating at the military bases.

The lower federal tax rate and the elimination of bonus depreciation brought about by the Tax Act are expected to reduce Registrant's cash flows from operating activities, and result in higher financing costs arising from an increased need to raise debt and/or equity.

ASUS funds its operating expenses primarily through internal operating sources, which include U.S. government funding under 50-year contracts for operations and maintenance costs and construction activities, as well as investments by, or loans from, AWR. ASUS, in turn, provides funding to its subsidiaries. ASUS's subsidiaries may also from time to time provide funding to ASUS or its subsidiaries.

Cash flows from operating activities are primarily generated by net income, adjusted for non-cash expenses such as depreciation and amortization and deferred income taxes. During the nine months ended September 30, 2017, it was also adjusted for the gain on the sale of GSWC's Ojai water system. Cash generated by operations varies during the year. Net cash provided by operating activities of Registrant was $108.4 million for the nine months ended September 30, 2018 as compared to $120.2 million for the same period in 2017. The decrease in cash from operating activities was due primarily to: (i) significant differences in the timing of income tax payments made and refunds received between the two periods, and (ii) a decrease resulting from the timing of billing of and cash receipts for construction work at military bases during the nine months ended September 30, 2018. The billings (and cash receipts) for construction work generally occur at completion of the work or in accordance with a billing schedule contractually agreed to with the U.S. government and/or other prime contractors. Thus, cash flow from construction-related activities may fluctuate from period to period with such fluctuations representing timing differences of when the work is being performed and when the cash is received for payment of the work. These decreases in cash from operating activities were partially offset by an overall increase in cash collected or over-collected from customers related to GSWC’s regulatory accounts. The timing of cash receipts and disbursements related to other working capital items also affected the changes in net cash provided by operating activities.

Cash Flows from Investing Activities:

Net cash used in investing activities was $88.8 million for the nine months ended September 30, 2018 as compared to $44.9 million for the same period in 2017. In addition to an increase in cash used for capital expenditures in 2018, during the nine months ended September 30, 2017, there were the proceeds received in 2017 for the sale of GSWC's Ojai water system, which generated $34.3 million in cash.

Registrant invests capital to provide essential services to its regulated customer base, while working with its regulators to have the opportunity to earn a fair rate of return on investment. Registrant's infrastructure investment plan consists of both infrastructure renewal programs, where infrastructure is replaced, as needed, and major capital investment projects, where new water treatment, supply and delivery facilities are constructed. GSWC may also be required from time to time to relocate existing infrastructure in order to accommodate local infrastructure improvement projects. Projected capital expenditures and other investments are subject to periodic review and revision.

Cash Flows from Financing Activities:

Registrant's financing activities include primarily: (i) the sale proceeds from the issuance of Common Shares and stock option exercises and the repurchase of Common Shares; (ii) the issuance and repayment of long-term debt and notes payable to banks, and (iii) the payment of dividends on Common Shares. In order to finance new infrastructure, Registrant also receives customer advances (net of refunds) for, and contributions in aid of construction. Short-term borrowings are used to fund capital expenditures until long-term financing is arranged.

Net cash used in financing activities was $17.9 million for the nine months ended September 30, 2018 as compared to $69.1 million used for the same period in 2017. This decrease in cash used for financing activities was due to an increase in short-term borrowings from Registrant's revolving credit facility during the nine months ended September 30, 2018. During the nine months ended September 30, 2017, the cash proceeds from the Ojai sale, as well as cash generated from operating activities, were used to pay down short-term borrowings.

GSWC

GSWC funds its operating expenses, payments on its debt, and dividends on its outstanding common shares and a portion of its construction expenditures through internal sources. Internal sources of cash flow are provided primarily by retention of a portion of earnings from operating activities. Internal cash generation is influenced by factors such as weather patterns, conservation efforts, environmental regulation, litigation, changes in tax law and deferred taxes, changes in supply costs and regulatory decisions affecting GSWC's ability to recover these supply costs, timing of rate relief, increases in maintenance expenses and capital expenditures, surcharges authorized by the CPUC to enable GSWC to recover expenses previously incurred from customers and CPUC requirements to refund amounts previously charged to customers.

GSWC may, at times, utilize external sources, including equity investments and short-term borrowings from AWR, and long-term debt to help fund a portion of its construction expenditures. In addition, GSWC receives advances and contributions from customers, homebuilders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are generally refundable at a rate of 2.5% in equal annual installments over 40 years. Amounts which are no longer subject to refund are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from rate base. Generally, GSWC amortizes contributions in aid of construction at the same composite rate of depreciation for the related property.

As is often the case with public utilities, GSWC's current liabilities may at times exceed its current assets. Management believes that internally generated funds along with the proceeds from the issuance of long-term debt, GSWC's borrowings from its intercompany arrangement with AWR, and the ability to issue common shares to AWR, will be adequate to provide sufficient capital to enable GSWC to maintain normal operations and to meet its capital and financing requirements.

Cash Flows from Operating Activities:

Net cash provided by operating activities was $93.8 million for the nine months ended September 30, 2018 as compared to $98.4 million for the same period in 2017. This decrease was primarily due to significant differences in the timing of income tax payments made and refunds received between the two periods, partially offset by an overall increase in cash collected or over-collected from customers related to GSWC's regulatory accounts. The timing of cash receipts and disbursements related to other working capital items also affected the change in net cash provided by operating activities.

Cash Flows from Investing Activities:

Net cash used in investing activities was $80.7 million for the nine months ended September 30, 2018 as compared to $43.3 million for the same period in 2017. Included in the activity for the nine months ended September 30, 2017 were $34.3 million in cash proceeds received from the sale of GSWC's Ojai water system. For the nine months ended September 30, 2018, cash used for capital expenditures was $79.2 million. During 2018, GSWC's company-funded capital expenditures are estimated to be approximately $110 - $120 million.

Cash Flows from Financing Activities:

Net cash used in financing activities was $13.1 million for the nine months ended September 30, 2018 as compared to $49.1 million used for the same period in 2017. This decrease was due, in large part, to an increase in intercompany borrowings from AWR during the nine months ended September 30, 2018, as compared to the same period in 2017. During the nine months ended September 30, 2017, the cash proceeds received from the sale of the Ojai system, as well as cash generated from operating activities, were used to pay down intercompany borrowings. This decrease in cash used in financing activities was partially offset by the timing of dividend payments made to AWR. During the first nine months of 2017, GSWC made one quarterly dividend payment of $18.3 million to AWR. During the nine months ended September 30, 2018, GSWC paid three quarterly dividends totaling $28.9 million to AWR.

Contractual Obligations and Other Commitments

Registrant has various contractual obligations, which are recorded as liabilities in the consolidated financial statements. Other items, such as certain purchase commitments and operating leases are not recognized as liabilities in the consolidated financial statements, but are required to be disclosed.

In addition to contractual maturities, Registrant has certain debt instruments that contain an annual sinking fund or other principal payments. Registrant believes that it will be able to refinance debt instruments at their maturity through public issuance, or private placement, of debt or equity. Annual payments to service debt are generally made from cash flows from operations.

See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations, Commitments and Off Balance Sheet Arrangements"* section of the Registrant's Form 10-K for the year ended December 31, 2017 for a detailed discussion of contractual obligations and other commitments. In March of 2019, $40 million of GSWC's 6.70% note will mature, which has been included in "Current Liabilities" as of September 30, 2018. GSWC intends to borrow under its intercompany borrowing arrangement with AWR and/or issue additional long-term debt to fund the repayment of this note.

Contracted Services

Under the terms of the current and future utility privatization contracts with the U.S. government, each contract's price is subject to an economic price adjustment ("EPA") on an annual basis. In the event that ASUS (i) is managing more assets at specific military bases than were included in the U.S. government's request for proposal, (ii) is managing assets that are in substandard condition as compared to what was disclosed in the request for proposal, (iii) prudently incurs costs not contemplated under the terms of the utility privatization contract, and/or (iv) becomes subject to new regulatory requirements, such as more stringent water-quality standards, ASUS is permitted to file, and has filed, requests for equitable adjustment ("REA"). The timely filing for and receipt of EPAs and/or REAs continues to be critical in order for the Military Utility Privatization Subsidiaries to recover increasing costs of operating and maintaining, and renewing and replacing the water and/or wastewater systems at the military bases it serves.

Under the Budget Control Act of 2011 (the "2011 Act"), substantial automatic spending cuts, known as "sequestration," have impacted the expected levels of Department of Defense budgeting. The Military Utility Privatization Subsidiaries have not experienced any earnings impact to their existing operations and maintenance and renewal and replacement services, as utility privatization contracts are an "excepted service" within the 2011 Act. While the ongoing effects of sequestration have been mitigated through the passage of a continuing resolution for the fiscal year 2018 Department of Defense budget, similar issues may arise as part of fiscal uncertainty and/or future debt-ceiling limits imposed by Congress. However, any future impact on ASUS and its operations through the Military Utility Privatization Subsidiaries will likely be limited to (a) the timing of funding to pay for services rendered, (b) delays in the processing of EPAs and/or REAs, (c) the timing of the issuance of contract modifications for new construction work not already funded by the U.S. government, and/or (d) delays in the solicitation for and/or awarding of new contracts under the Department of Defense utility privatization program.

At times, the Defense Contract Audit Agency and/or the Defense Contract Management Agency may, at the request of a contracting officer, perform audits/reviews of contractors for compliance with certain government guidance and regulations, such as the Federal Acquisition Regulations and Defense Federal Acquisition Regulation Supplements. Certain audit/review findings, such as system deficiencies for government-contract-business-system requirements, may result in delays in the timing of resolution of filings submitted to and/or the ability to file new proposals with the U.S. government.

On July 1, 2018, ASUS assumed the operation, maintenance and construction management of the water distribution, wastewater collection and treatment facilities at Fort Riley, a United States Army installation located in Kansas, after completing a transition period. The contract was awarded by the U.S. government on September 29, 2017 with an initial value of $601 million over the 50-year period, subject to adjustments for the actual inventory level to be managed and the lower federal corporate income tax rate effective January 1, 2018 resulting from the Tax Act. The 50-year contract will also be subject to annual economic price adjustments.

Regulatory Matters

Pending General Rate Case Filings:

Water Segment:

In July 2017, GSWC filed a general rate case application for all its water regions and the general office. This general rate case will determine new water rates for the years 2019 through 2021. On August 15, 2018, GSWC and the CPUC's Public Advocates Office ("CalPA"), formerly the Office of Ratepayer Advocates, filed a joint motion to adopt a settlement agreement between GSWC and the CalPA in connection with this general rate case. If approved by the CPUC, this settlement resolves all the issues in the general rate case application and authorizes GSWC to invest approximately $334.5 million in capital infrastructure over the three-year rate cycle. The $334.5 million of infrastructure investment, as settled, includes $20.4 million of capital projects to be filed for revenue recovery through advice letters when those projects are completed.

Excluding the advice letter project revenues, the water gross margin for 2019 in the settlement filing is expected to increase by approximately $6.0 million as compared to the 2018 adopted water gross margin. The 2019 water revenue requirement, as settled, has been reduced for a decrease of approximately $7.0 million in depreciation expense compared to the adopted 2018 depreciation expense due to a reduction in the overall composite depreciation rates based on a revised study filed in the general rate case. The decrease in depreciation expense lowers the water gross margin, and is offset by a corresponding decrease in depreciation expense, resulting in no impact to net earnings. In addition, the 2019 water revenue requirement, as settled, includes a decrease of approximately $2.2 million for excess deferred tax refunds as a result of the Tax Act, which has a corresponding decrease in income tax expense and also results in no impact to earnings. Had depreciation expense, as settled, remained the same as the 2018 adopted amount and there was no excess deferred tax refund that lowered the 2019 revenue requirement, the water gross margin for 2019 would have increased by approximately $15.2 million. The settlement as filed also allows for potential additional water revenue increases in 2020 and 2021 of approximately $10.0 million and $12.0 million, respectively, subject to the results of an earnings test and changes to the forecasted inflationary index values.

GSWC and CalPA informed the assigned Administrative Law Judge ("ALJ") that hearings would not be needed in light of the settlement agreement. Subsequently, the ALJ issued a ruling requesting additional information on a number of items in the general rate case. GSWC has provided the additional information requested by the ALJ and believes it has satisfied all of the questions raised. Both the ALJ's request and GSWC's response are public information. At this time, GSWC is awaiting a proposed decision by the ALJ, which is expected during the fourth quarter of 2018, with a final decision by the CPUC expected by the first quarter of 2019. When approved, the new rates will become effective January 1, 2019.

Electric Segment:

In May 2017, GSWC filed its electric general rate case application with the CPUC to determine new electric rates for the years 2018 through 2021. GSWC and CalPA have reached a tentative settlement, which resolves all revenue requirement issues in this general rate case. A settlement conference with all parties in the rate case is scheduled for November 2018. Among other things, the tentative settlement incorporates a previous stipulation in the case, which authorizes a new return on equity for GSWC's electric segment of 9.60%. GSWC's prior authorized return on equity for its electric segment was 9.95%. The stipulation also included a capital structure and debt cost similar to those approved by the CPUC in March 2018 in connection with GSWC's water segment cost of capital proceeding, as discussed below. Because of the delay in finalizing the electric general rate case, year-to-date 2018 billed electric revenues have been based on 2017 adopted rates, pending a final decision by the CPUC in this rate case application. When a final decision is approved, the new electric rates will be retroactive to January 1, 2018.

Cost of Capital Proceeding for Water Regions:

In April 2017, GSWC filed its water cost of capital application with the CPUC. In March 2018, the CPUC issued a final decision in the cost of capital proceeding for GSWC and three other investor-owned water utilities that serve California. Among other things, the final decision adopts for GSWC (i) an ROE of 8.90%, (ii) a capital structure with 57% equity and 43% debt, (iii) a return on rate base of 7.91%, and (iv) the continuation of the water cost of capital adjustment mechanism. GSWC's prior authorized ROE for its water segment was 9.43% with a return on rate base of 8.34%. The newly authorized return on rate base of 7.91% also reflects a true-up of GSWC's embedded debt cost from 6.99% to 6.6%. The reduced debt costs contributed approximately 18 basis points to the 43-basis-point drop in the authorized return on rate base. Including the effects of the Tax Act, the lower return on rate base beginning in 2018 is expected to decrease GSWC's 2018 adopted annual revenue requirement by approximately $3.6 million.

Other Regulatory Matters:

See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters"* section of the Registrant's Form 10-K for the year-ended December 31, 2017 for a detailed discussion of other regulatory matters.

Environmental Matters

GSWC is required to comply with the safe drinking water standards established by the U.S. Environmental Protection Agency ("US EPA") and the Division of Drinking Water ("DDW"), under the State Water Resources Control Board ("SWRCB"). The US EPA regulates contaminants that may have adverse health effects that are known or likely to occur at levels of public health concern, and the regulation of which will provide a meaningful opportunity for health risk reduction. The DDW, acting on behalf of the US EPA, administers the US EPA's program in California. Similar state agencies administer these rules in the other states in which Registrant operates.

GSWC currently tests its water supplies and water systems according to, among other things, requirements listed in the Federal Safe Drinking Water Act ("SDWA"). In compliance with the SDWA and to assure a safe drinking water supply to its customers, GSWC has incurred operating costs for testing to determine the levels, if any, of the constituents in its sources of supply and additional expense to treat contaminants in order to meet federal and state maximum contaminant level standards and consumer demands. GSWC expects to incur additional capital costs as well as increased operating costs to maintain or improve the quality of water delivered to its customers in light of anticipated stress on water resources associated with watershed and aquifer pollution, as well as to meet future water quality standards. The CPUC ratemaking process provides GSWC with the opportunity to recover prudently incurred capital and operating costs in future filings associated with achieving water quality standards. Management believes that such incurred and expected future costs will be authorized for recovery by the CPUC.

Drinking Water Notifications Levels:

In July 2018, the DDW issued drinking water notification levels for certain fluorinated organic chemicals used to make certain fabrics and other materials, and used in various industrial processes. These chemicals are referred to as perfluoroalkyl substances (e.g., PFOA and PFOS). Notification levels are non-regulatory, health-based advisory levels established for contaminants in drinking water for which maximum contaminant levels have not been established. The US EPA has also established health advisory levels for these compounds. Notification to consumers is required when the advisory levels or notification levels are exceeded. GSWC currently does not have water sources exceeding the advisory or notification levels.

Lead Testing in Schools:

In January 2017, the DDW required all water utilities to test the schools in their service area for lead in their on-site drinking water if requested by the school's officials. Legislation was passed in October 2017 making such testing mandatory for any school site with a building constructed before January 1, 2010. Monitoring by the utility must be completed before July 1, 2019. GSWC has completed lead sampling at approximately 42 percent of the schools in its service areas as of September 2018, and will continue to work with the remaining schools in its service areas in an effort to meet the July 1, 2019 deadline. Management cannot predict if all schools will cooperate and complete the testing, and as a result cannot predict complete compliance with this regulation by the deadline.

See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Environmental Matters"* section of the Registrant's Form 10-K for the year-ended December 31, 2017 for a discussion of environmental matters applicable to GSWC and ASUS and its subsidiaries.

Water Supply

See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—California Drought"* section of the Registrant's Form 10-K for the year-ended December 31, 2017 for a discussion of water supply issues. The discussion below focuses on significant matters and changes since December 31, 2017.

California Water Use Standards:

In April 2017, the Governor of California ended the drought state of emergency in most of California in response to significantly improved water supply conditions resulting from substantial rainfall and snowpack in late 2016 and early 2017. In April 2017, the SWRCB and related state agencies released a plan to establish a framework for long-term water use efficiency standards. The plan includes continued bans on wasteful practices and outlines the SWRCB's vision for continued implementation of the Governor's executive order on water conservation. In May 2018, the Governor signed into law two pieces of legislation to implement the plan, establishing new permanent water use targets, beginning in 2022. The legislation also includes reporting requirements and enforcement provisions, requiring compliance at the utility level. The overall framework includes water use limits based on the following: (i) a standard for indoor water use that reduces over time, dropping to 50 gallons per capita per day, or lower, by 2030; (ii) a standard for outdoor residential water use based on local climate conditions and amount of landscape, and (iii) a standard for water loss due to system leaks. Included in the provisions are penalties for non-compliance with the stated water use targets, with increased penalties during drought years. More specific details on these regulations will be developed by the SWRCB and the California Department of Water Resources ("DWR") prior to compliance in 2022. Management cannot predict at this time its ability to comply with the new laws, or the CPUC's treatment of any incremental costs incurred in compliance. The legislation also adds provisions to the existing Urban Water Management Plan regulations, and requires urban water suppliers to conduct annual drought risk assessments and submit reports to the DWR.

California's recent period of drought resulted in reduced recharge to the state's groundwater basins. GSWC utilizes groundwater from numerous groundwater basins throughout the state. Several of these basins, especially smaller basins, experienced lower groundwater levels because of the drought. Several of GSWC's service areas rely on groundwater as their only source of supply. Given the critical nature of the groundwater levels in California's Central Coast area, GSWC implemented mandatory water restrictions in certain service areas, in accordance with CPUC procedures. In the event of water supply shortages beyond the locally available supply, GSWC would need to transport additional water from other areas, increasing the cost of water supply.

Precipitation during December 2017 and to date in 2018 has been below average for much of California and may indicate less than normal rainfall for 2018. If dry conditions persist through the remainder of 2018, areas served by these smaller basins may experience further mandatory conservation measures in the future.

As of October 30, 2018, the U.S. Drought Monitor estimated approximately 3 percent of California in the rank of "Extreme Drought," approximately 19 percent in the rank of "Severe Drought," and approximately 48 percent in the rank of "Moderate Drought." If dry conditions persist, the SWRCB or other regulatory agencies may impose emergency drought actions.

Metropolitan Water District/ State Water Project:

GSWC purchases a portion of its water supply from the Metropolitan Water District of Southern California ("MWD") member agencies. Water supplies available to the MWD through the State Water Project ("SWP") vary from year to year based on several factors. Every year, the DWR establishes the SWP allocation for water deliveries to state water contractors. DWR generally establishes a percentage allocation of delivery requests based on several factors, including weather patterns, snow-pack levels, reservoir levels and biological diversion restrictions. The SWP is a major source of water for the MWD. In May 2018, the SWP allocation was set at 35 percent of requested orders.

New Accounting Pronouncements

Registrant is subject to newly issued requirements as well as changes in existing requirements issued by the Financial Accounting Standards Board. Differences in financial reporting between periods for GSWC could occur unless and until the CPUC approves such changes for conformity through regulatory proceedings. See Note 1 of Unaudited Notes to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Registrant is exposed to certain market risks, including fluctuations in interest rates, commodity price risk primarily relating to changes in the market price of electricity at BVES and other economic conditions. Market risk is the potential loss arising from adverse changes in prevailing market rates and prices.

The quantitative and qualitative disclosures about market risk are discussed in *Item 7A-Quantitative and Qualitative Disclosures About Market Risk*, contained in Registrant's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities and Exchange Act of 1934 (the "Exchange Act"), we have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness, as of the end of the fiscal quarter covered by this report, of the design and operation of our "disclosure controls and procedures" as defined in Rule 13a-15(e) and 15d-15(e) promulgated by the Securities and Exchange Commission ("SEC") under the Exchange Act. Based upon that evaluation, the CEO and the CFO concluded that disclosure controls and procedures, as of the end of such fiscal quarter, were adequate and effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2018, that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

Registrant is subject to ordinary routine litigation incidental to its business, some of which may include claims for compensatory and punitive damages. Other than those disclosed in this Form 10-Q and in Registrant's Form 10-K for the year ended December 31, 2017, no other legal proceedings that are believed to be material are pending. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against, among other things, property, general liability, employment, and workers' compensation claims incurred in the ordinary course of business. Insurance coverage may not cover certain claims involving punitive damages.

Item 1A. Risk Factors

There have been no significant changes in the risk factors disclosed in our 2017 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The shareholders of AWR have approved the material features of all equity compensation plans under which AWR directly issues equity securities. The following table provides information about repurchases of Common Shares by AWR during the third quarter of 2018:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased under the Plans or Programs (3)
July 1 – 31, 2018	12,738		$ 60.05	—	—
August 1 – 31, 2018	16,000		$ 59.80	—	—
September 1 – 30, 2018	43,795		$ 59.38	—	—
Total	72,533	(2)	$ 59.59	—	

(1) None of the common shares were purchased pursuant to any publicly announced stock repurchase program.

(2) Of this amount, 67,225 Common Shares were acquired on the open market for employees pursuant to the Company's 401(k) plan and the remainder were acquired on the open market for participants in the Common Share Purchase and Dividend Reinvestment Plan.

(3) Neither the 401(k) plan nor the Common Share Purchase and Dividend Reinvestment Plan contain a maximum number of common shares that may be purchased in the open market.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosure

Not applicable

Item 5. Other Information

(a) On October 30, 2018, AWR's Board of Directors approved a fourth quarter dividend of $0.275 per share on AWR's Common Shares. Dividends on the Common Shares are payable on December 3, 2018 to shareholders of record at the close of business on November 15, 2018.

(b) There have been no material changes during the third quarter of 2018 to the procedures by which shareholders may nominate persons to the Board of Directors of AWR.

Item 6. Exhibits

(a) The following documents are filed as Exhibits to this report:

3.1	By-Laws of American States Water Company incorporated by reference to Exhibit 3.1 of Registrant's Form 10-Q, filed August 6, 2012 (File No. 1-14431)
3.2	By-laws of Golden State Water Company incorporated by reference to Exhibit 3.2 of Registrant's Form 8-K filed May 13, 2011 (File No. 1-14431)
3.3	Amended and Restated Articles of Incorporation of American States Water Company, as amended, incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K filed June 19, 2013
3.4	Restated Articles of Incorporation of Golden State Water Company, as amended, incorporated herein by reference to Exhibit 3.1 of Registrant's Form 10-Q for the quarter ended September 30, 2005 (File No. 1-14431)
4.1	Indenture, dated September 1, 1993 between Golden State Water Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, as supplemented, incorporated herein by reference to Exhibit 4.01 of Golden State Water Company Form S-3 filed December 12, 2008 (File No. 333-156112)
4.2	Note Purchase Agreement dated as of October 11, 2005 between Golden State Water Company and Co-Bank, ACB incorporated by reference to Exhibit 4.1 of Registrant's Form 8-K filed October 13, 2005 (File No. 1-14431)
4.3	Note Purchase Agreement dated as of March 10, 2009 between Golden State Water Company and Co-Bank, ACB, incorporated herein by reference to Exhibit 10.16 to Registrant's Form 10-K filed on March 13, 2009 (File No. 1-14431)
4.4	Indenture dated as of December 1, 1998 between American States Water Company and The Bank of New York Mellon Trust Company, N.A., as supplemented by the First Supplemental Indenture dated as of July 31, 2009 incorporated herein by reference to Exhibit 4.1 of American States Water Company's Form 10-Q for the quarter ended June 30, 2009 (File No. 1-14431)
10.1	Second Sublease dated October 5, 1984 between Golden State Water Company and Three Valleys Municipal Water District incorporated herein by reference to Registrant's Registration Statement on Form S-2, Registration No. 33-5151
10.2	Note Agreement dated as of May 15, 1991 between Golden State Water Company and Transamerica Occidental Life Insurance Company incorporated herein by reference to Registrant's Form 10-Q with respect to the quarter ended June 30, 1991 (File No. 1-14431)
10.3	Schedule of omitted Note Agreements, dated May 15, 1991, between Golden State Water Company and Transamerica Annuity Life Insurance Company, and Golden State Water Company and First Colony Life Insurance Company incorporated herein by reference to Registrant's Form 10-Q with respect to the quarter ended June 30, 1991 (File No. 1-14431)
10.4	Loan Agreement between California Pollution Control Financing Authority and Golden State Water Company, dated as of December 1, 1996 incorporated by reference to Exhibit 10.7 of Registrant's Form 10-K for the year ended December 31, 1998 (File No. 1-14431)
10.5	Agreement for Financing Capital Improvement dated as of June 2, 1992 between Golden State Water Company and Three Valleys Municipal Water District incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1992 (File No. 1-14431)
10.6	Water Supply Agreement dated as of June 1, 1994 between Golden State Water Company and Central Coast Water Authority incorporated herein by reference to Exhibit 10.15 of Registrant's Form 10-K with respect to the year ended December 31, 1994 (File No. 1-14431)
10.7	2003 Non-Employee Directors Stock Purchase Plan, as amended, incorporated herein by reference to Exhibit 10.4 to Registrant's Form 8-K filed on May 20, 2015 (File No. 1-14431) (2)
10.8	Dividend Reinvestment and Common Share Purchase Plan incorporated herein by reference to American States Water Company Registrant's Form S-3D filed November 12, 2008 (File No. 1-14431)
10.9	Form of Amended and Restated Change in Control Agreement between American States Water Company or a subsidiary and certain executives incorporated herein by reference to Exhibit 10.4 to Registrant's Form 8-K filed on November 21, 2014 (File No. 1-14431) (2)
10.10	Golden State Water Company Pension Restoration Plan, as amended, incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 21, 2009 (File No. 1-14431) (2)

10.11	Amended and Restated Credit Agreement between American States Water Company dated June 3, 2005 with Wells Fargo Bank, N.A., as Administrative Agent, as amended, incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed May 25, 2018
10.12	Form of Indemnification Agreement for executive officers incorporated by reference to Exhibit 10.21 to Registrant's Form 10-K for the year ended December 31, 2006 (File No. 1-14431) (2)
10.13	2008 Stock Incentive Plan, as amended, incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed March 25, 2016 (2)
10.14	Form of Nonqualified Stock Option Agreement for officers and key employees for the 2008 Stock Incentive Plan incorporated herein by reference to Exhibit 10.3 to Registrant's Form 8-K filed November 21, 2014 (2)
10.15	Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments incorporated herein by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on April 2, 2014 (2)
10.16	Performance Incentive Plan incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 20, 2015 (File No. 1-14431) (2)
10.17	Officer Relocation Policy incorporated herein by reference to Exhibit 10.5 to the Registrant's Form 8-K filed on July 31, 2009 (2)
10.18	Form of Non-Qualified Stock Option Award Agreement for officers and key employees under the 2008 Stock Incentive Plan for stock options granted after December 31, 2010 incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed on February 4, 2011 (File No. 1-14431) (2)
10.19	Form of Restricted Stock Unit Award Agreement for officers and key employees under the 2016 Stock Incentive Plan incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on February 6, 2017 (File No. 1-14431) (2)
10.20	Form of Indemnification Agreement for directors incorporated by reference herein to Exhibit 10.35 to the Registrant's Form 10-K for the period ended December 31, 2012 (1) (2)
10.21	2016 Short-Term Incentive Program incorporated by reference herein to Exhibit 10.3 to Registrant's Form 8-K filed on March 25, 2016 (2)
10.22	Form of 2016 Short-Term Incentive Award Agreement incorporated by reference to Exhibit 10.4 to the Registrant's Form 8-K filed March 25, 2016 (2)
10.23	2016 Stock Incentive Plan incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on May 19, 2016 (2)
10.24	2013 Non-Employee Directors Plan incorporated by reference herein to Exhibit 10.2 to the Registrant's Form 8-K filed on March 25, 2016 (2)
10.25	Form of Restricted Stock Unit Agreement for grants after December 31, 2014 under the 2008 Stock Incentive Plan incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed November 21, 2014 (2)
10.26	Form of 2015 Performance Award Agreement incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed January 30, 2015 (2)
10.27	2015 Short-Term Incentive Program incorporated by reference herein to Exhibit 10.1 to the Registrant's Form 8-K filed on March 27, 2015 (2)
10.28	Form of 2015 Short-Term Incentive Award Agreement incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K filed March 27, 2015 (2)
10.29	Form of 2016 Performance Award Agreement incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed January 29, 2016 (2)
10.30	Form of 2017 Performance Award Agreement incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed on February 6, 2017 (2)
10.31	2017 Short-Term Incentive Program incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on March 31, 2017 (2)
10.32	Form of Restricted Stock Award Agreement for officers with respect to time-vested restricted stock awards under the 2016 Stock Incentive Plan prior to January 1, 2018 incorporated by reference to Exhibit 10.1 of Form 8-K filed on February 6, 2017

10.33	Form of 2017 Short-Term Incentive Agreement incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed on March 31, 2017 (2)
10.34	Form of Restricted Stock Award Agreement for officers with respect to time-vested restricted stock awards under the 2016 Stock Incentive Plan after December 31, 2017 incorporated by reference to Exhibit 10.1 of Form 8-K filed on November 3, 2017
10.35	Form of 2018 Performance Award Agreement incorporated by reference to Exhibit 10-1 of Registrant's Form 8-K filed February 2, 2018 (2)
10.36	2018 Short-Term Incentive Program incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on March 23, 2018 (2)
10.37	Form of Award Agreement for the 2018 Short-Term Incentive Program incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed on March 23, 2018 (2)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for AWR (1)
31.1.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for GSWC (1)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for AWR (1)
31.2.1	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for GSWC (1)
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (3)
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (3)
101.INS	XBRL Instance Document (3)
101.SCH	XBRL Taxonomy Extension Schema (3)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (3)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (3)
101.LAB	XBRL Taxonomy Extension Label Linkbase (3)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (3)

(1) Filed concurrently herewith
(2) Management contract or compensatory arrangement
(3) Furnished concurrently herewith

SIGNATURE

Pursuant to the requirements 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 and as its principal financial officer.

AMERICAN STATES WATER COMPANY ("AWR"):

By: /s/ EVA G. TANG

Eva G. Tang
Senior Vice President-Finance, Chief Financial Officer, Corporate Secretary and Treasurer

GOLDEN STATE WATER COMPANY ("GSWC"):

By: /s/ EVA G. TANG

Eva G. Tang
Senior Vice President-Finance, Chief Financial Officer and Secretary

Date: November 5, 2018

EXHIBIT J

BEAR VALLEY ELECTRIC SERVICE, INC.'S ARTICLES OF INCORPORATION

4217859

ARTICLES OF INCORPORATION
OF
BEAR VALLEY ELECTRIC SERVICE, INC.

FILED
Secretary of State
State of California

DEC 12 2018

Name

One: The name of the corporation is Bear Valley Electric Service, Inc.

Purpose

Two: The purpose of the corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

Initial Address; Agent for Service

Three: The initial address of the corporation is 42020 Garstin Drive, Big Bear Lake, California 92315. The name of the corporation's initial agent for service of process is Gladys Farrow, 630 East Foothill Blvd., San Dimas, California 91773.

Authorized Shares

Four: The total number of shares which the corporation is authorized to issue is One Thousand (1,000) shares with no par value.

Director Liability

Five: The liability of the directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

Indemnification of Agents

Six: The corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of shareholders or disinterested directors or otherwise, in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to the applicable limits set forth in Section 204 of the California Corporations Code with respect to actions for breach of duty to the corporation and its shareholders.

4217859

IN WITNESS WHEREOF, the undersigned executes these Articles of Incorporation

Roman Koidl
Sole Incorporator

I hereby certify that the foregoing transcript of 2 page(s) is a full, true and correct copy of the original record in the custody of the California Secretary of State's office.

DEC 12 2018 GS

Date:

Alex Padilla

ALEX PADILLA, Secretary of State

EXHIBIT K

BEAR VALLEY ELECTRIC SERVICE, INC.'S BYLAWS

BYLAWS

**for the regulation, except
as otherwise provided by statute or
its Articles of Incorporation,
of
Bear Valley Electric Service, Inc.
(a California corporation)**

ARTICLE I. Offices.

Section 1. PRINCIPAL EXECUTIVE OFFICE. The principal executive office of the corporation shall be fixed and located at such place as the Board of Directors (herein called the "Board") shall determine. The Board is hereby granted full power and authority to change said principal executive office from one location to another.

Section 2. OTHER OFFICES. Branch or subordinate offices may at any time be established by the Board at any place or places.

ARTICLE II. Meetings of Shareholders.

Section 1. PLACE OF MEETINGS. Meetings of shareholders shall be held either at the principal executive office of the corporation or at any other place within or without the State of California which may be designated either by the Board or by the written consent of all persons entitled to vote thereat, given either before or after the meeting and filed with the Secretary.

Section 2. ANNUAL MEETINGS. The annual meetings of shareholders shall be held on such date and at such time as may be fixed by the Board.

Section 3. SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose or purposes whatsoever, may be called at any time by the Board, the Chairman of the Board, the President, or by the holders of shares entitled to cast not less than ten percent of the votes at such meeting.

ARTICLE III. Directors.

Section 1. POWERS. Subject to limitations of the Articles, these Bylaws and the California General Corporation Law as to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board.

Section 2. NUMBER OF DIRECTORS. Prior to the commencement of operations as an electric utility, the authorized number of directors should be one. After the commencement of operations as an electric utility, the authorized number of directors shall be three.

ARTICLE IV. Officers.

Section 1. OFFICERS. The officers of the corporation shall be a President, a Secretary, and a Treasurer. The corporation may also have, at the discretion of the Board, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as the Board may from time to time determine.

Section 2. PRESIDENT. The President shall be the chief executive officer of the corporation and has, subject to the control of the Board, general supervision, direction and control of the business and officers of the corporation. The President shall preside at all meetings of the shareholders and at all meetings of the Board. The President has the general powers and duties of management usually vested in the office of president of a corporation and has such other powers and duties as may be prescribed by the Board.

Section 3. SECRETARY. The Secretary shall keep or cause to be kept, at the principal executive office or such other place as the Board may order, a book of minutes of all meetings of the shareholders, the Board and its committees, and a share register or a duplicate share register.

The Secretary shall give, or cause to be given, notice of all the meetings of the shareholders and of the Board and any committees thereof required by the Bylaws or by law to be given, shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board.

Section 4. TREASURER The Treasurer is the chief financial officer of the corporation and shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the corporation, and shall send or cause to be sent to the shareholders of the corporation such financial statements and reports as are by law or these Bylaws required to be sent to them. The books of account shall at all times be open to inspection by any director.

The Treasurer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the Board. The Treasurer shall disburse the funds of the corporation as may be ordered by the Board, shall render to the President and the directors, whenever they request it, an account of all transactions as Treasurer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board.

ARTICLE V. Other Provisions.

Section 1. ANNUAL REPORT TO SHAREHOLDERS. The annual report to shareholders referred to in Section 1501 of the California General Corporation Law is expressly waived, but nothing herein shall be interpreted as prohibiting the Board from issuing annual or other periodic reports to shareholders.

Section 2. CONSTRUCTION AND DEFINITIONS. Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the

General Provisions of the California Corporations Code and in the California General Corporation Law shall govern the construction of these Bylaws.

ARTICLE VI. Amendments.

These Bylaws may be amended or repealed either by approval of the outstanding shares (as defined in Section 152 of the California General Corporation Law) or by the approval of the Board; provided, however, that after the issuance of shares, a bylaw specifying or changing a fixed number of directors or the maximum or minimum number or changing from a fixed to a variable number of directors or vice versa or reducing the number of directors may be adopted only by approval of the outstanding shares, and shall be subject to the provisions of Section 212(a) of the California General Corporation Law.

ARTICLE VII. Indemnification.

Section 1. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

(a) Each person who was or is a party or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the corporation, or of any predecessor corporation, or is or was a director or officer who is or was serving at the request of the corporation as a director, officer, employee or other agent of another corporation, a partnership, joint venture, trust or other enterprise (including service with respect to corporation-sponsored employee benefit plans), whether the basis of such proceeding is alleged action or inaction in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall, subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation to the fullest extent permissible under California law and the corporation's Articles, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) actually and reasonably incurred or suffered by such person in connection therewith; provided, however, that amounts paid in settlement of a proceeding shall be payable only if the settlement is approved in writing by the corporation. Such indemnification shall continue as to a person who has ceased to be a director or officer for acts performed while a director or officer and shall inure to the benefit of his or her heirs, executors and administrators. Notwithstanding the foregoing, the corporation shall indemnify any such person in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of the corporation. The right to indemnification conferred in this Article shall include the right to be paid by the corporation the expenses incurred in defending any proceeding in advance of final disposition to the fullest extent permitted by law, provided, however, that the payment under this Article of such expenses in advance of the final disposition of a proceedings shall be conditioned upon the delivery to the corporation of a written request for such advance and of an undertaking by or on behalf of the director or officer to repay all amounts so advanced if it shall be ultimately determined that such director or officer is not entitled to be indemnified.

(b) Notwithstanding the foregoing or any other provisions under this Article, the corporation shall not be liable under this Article to indemnify a director or officer against expenses, liabilities or losses incurred or suffered in connection with, or make any advances with respect to, any proceeding against a director or officer: (i) as to which the corporation is prohibited by applicable law from paying as an indemnity, (ii) with respect to expenses of defense or investigation, if such expenses were or are incurred without the corporation's consent (which consent may not be unreasonably withheld), (iii) for which payment is actually made to the director or officer under a valid and collectible insurance policy maintained by the corporation, except in respect of any excess beyond the amount of payment under such insurance, (iv) for which payment is actually made to the director or officer under an indemnity by the corporation otherwise than pursuant to this Bylaw Article, except in respect of any excess beyond the amount of payment under such indemnity, (v) based upon or attributable to the director or officer gaining in fact any personal profit or advantage to which he or she was not legally entitled, (vi) for an accounting of profits made from the purchase or sale by the director or officer of securities of the corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law, or (vii) based upon acts or omissions involving intentional misconduct or a knowing and culpable violation of law.

Section 2. INDEMNIFICATION OF EMPLOYEES AND AGENTS. A person who was or is a party or is threatened to be made a party to or is involved in any proceeding by reason of the fact that he or she is or was an employee or agent of the corporation or is or was an employee or agent of the corporation who is or was serving at the request of the corporation as an employee or agent of another enterprise, including service with respect to corporation-sponsored employee benefits plans, whether the basis of such action is alleged action or inaction in an official capacity or in any other capacity while serving as an employee or agent, may, upon appropriate action by the corporation and subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation up to the fullest extent permitted by California law and the corporation's Articles, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person in connection therewith.

Section 3. RIGHT OF DIRECTORS AND OFFICERS TO BRING SUIT. If a claim under Section 1 of this Article is not paid by the corporation or on its behalf within 90 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim, and, if successful in whole or in part, the claimant also shall be entitled to be paid the expense of prosecuting such claim.

Section 4. SUCCESSFUL DEFENSE. Notwithstanding any other provision of this Article, to the extent that a director or officer has been successful on the merits or otherwise (including the dismissal of a proceeding without prejudice or the settlement with the written consent of the corporation of a proceeding without admission of liability) in defense of any proceeding referred to in Section 1 or in defense of any claim, issue or matter therein, such director or officer shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

Section 5. INDEMNITY AGREEMENTS. The corporation may enter into agreements with any director, officer, employee or agent of the corporation providing for indemnification to the fullest extent permissible under applicable law and the corporation's Articles.

Section 6. SUBROGATION. In the event of payment by the corporation of a claim under Section 1 of this Article, the corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the indemnified person, who shall execute all papers required and shall do everything that may be necessary or appropriate to secure such rights, including the execution of such documents necessary or appropriate to enable the corporation effectively to bring suit to enforce such rights.

Section 7. NON-EXCLUSIVITY RIGHTS. The right to indemnification provided by this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

Section 8. INSURANCE. The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, a partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under California law.

Section 9. EXPENSES AS A WITNESS. To the extent that any director, officer or employee of the corporation is by reason of such position a witness in any action, suit or proceeding, he or she will be indemnified against all costs and expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith.

Section 10. NONAPPLICABILITY TO FIDUCIARIES OF EMPLOYEE BENEFIT PLANS. This article does not apply to any proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the corporation. The corporation shall have power to indemnify such trustee, investment manager or other fiduciary to the extent permitted by subdivision (f) of Section 207 of the California General Corporation Law.

Section 11. SEPARABILITY. Each and every paragraph, sentence, term and provision of this Article is separate and distinct so that if any paragraph, sentence, term or provision shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Article may be modified by a court of competent jurisdiction to preserve its validity and to provide the claimant with, subject to the limitations set forth in this Article and any agreement between the corporation and the claimant, the broadest possible indemnification permitted under applicable law.

Section 12. EFFECT OF REPEAL OR MODIFICATION. Any repeal or modification of this Article shall not adversely affect any right of indemnification of a director, officer, employee or agent of the corporation existing at the time of such repeal or modification with respect to any action or omission occurring prior to such repeal or modification.