BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of GOLDEN STATE WATER COMPANY (U 133 W) for authorization to issue and sell additional debt and equity securities not exceeding the aggregate amount of $465,000,000 and other related requests.	Application 19-11- (Filed November 26, 2019)

APPLICATION OF GOLDEN STATE WATER COMPANY (U 133 W) FOR AUTHORIZATION TO ISSUE AND SELL ADDITIONAL DEBT AND EQUITY SECURITIES

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November 26, 2019

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I.
APPLICATION OF GOLDEN STATE WATER COMPANY (U 133 W) FOR AUTHORIZATION TO ISSUE AND SELL ADDITIONAL DEBT AND EQUITY SECURITIES

Pursuant to Articles 5 and 6 of Chapter 4, Part 1, Division 1 of the California Public Utilities Code and Rule 3.5 of the Rules of Practice and Procedure (the "Rules") of the California Public Utilities Commission (hereinafter the "Commission"), by this application ("Application"), GOLDEN STATE WATER COMPANY (hereinafter "GSWC") requests that the Commission:

(1) Authorize GSWC to issue, sell and deliver by public offering or private placement securities not exceeding $465,000,000 in aggregate offering amount, said securities consisting of, but not limited to, (i) common shares and preferred shares ("New Equity Securities"), and (ii) bonds, debentures, notes, and other evidences of indebtedness ("New Debt Securities"), in each case on terms and conditions in accordance with this Application at any time (the New Equity Securities and the New Debt Securities, collectively, the "New Securities");

(2) Authorize GSWC to use the net proceeds to be received from the New Securities for the purposes permitted under Section 817 of the California Public Utilities Code, including (i) the retirement and discharge of all or a portion of its then outstanding short-term debt issued for temporary financing of additions to GSWC's utility plant, (ii) reimbursement of GSWC for capital expenditures and for the acquisition of utility properties, and (iii) refunding existing long-term debt obligations;

(3) Authorize GSWC 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 GSWC to utilize interest rate management techniques to enhance its New Debt Securities in accordance with this Application;

(5) Specify that the features enhancing debt securities and interest rate management techniques set forth in Sections VIII and IX, respectively, shall not be counted against GSWC's authorized amount of New Securities since these instruments would not affect the amount of the underlying securities issued;

(6) Until the date that the authority granted pursuant to this Application is fully used, grant GSWC a waiver from the requirements of Section 818 of the California Public Utilities Code and the holding company rules issued on June 18, 1998, in Decision 98-06-068, as they apply only to GSWC's short-term borrowing arrangements. The waiver would authorize GSWC to borrow under these arrangements and would allow the short-term borrowings under these arrangements to remain outstanding for a maximum period of 24 consecutive months;

(7) Specify that the authority granted pursuant to this Application does not have an expiration date;

(8) 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 California Public Utilities Code;

(9) Specify that it would be reasonable for GSWC to request additional financing authority if a decision of the Commission in Application 18-12-019 (the application seeking to "spin-off" the Bear Valley Electric Service division of GSWC into a stand-alone subsidiary of American States Water Company) does not grant the financing authority requested in Application 18-12-019 or does not become final before the financing authority requested in this Application is exhausted; and

(10) Grant such other and further relief as the Commission may deem to be appropriate in this matter.

A more complete statement of the authorization sought herein is set forth below.

II.
CORPORATE INFORMATION

GSWC is a public utility corporation engaged principally in the business of providing water service in portions of Los Angeles, Orange, San Bernardino, Ventura, Lake, San Luis Obispo, Sacramento, Imperial, Contra Costa and Santa Barbara Counties, and through its Bear Valley Electric Service operating division, electric service in the Big Bear Lake area of the County of San Bernardino. GSWC requests that copies of all communications and correspondence with regard to this Application be sent to:

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GSWC was organized as a California corporation on December 31, 1929. In July 1998, GSWC became a wholly-owned subsidiary of American States Water Company ("ASWC"). A copy of GSWC's bylaws is filed herewith as Attachment A. A copy of GSWC's Restated Articles of Incorporation is filed herewith as Attachment B.

III.
BACKGROUND

GSWC's most recent financing authority was granted by Commission Decision 12-11-034, dated November 29, 2012. In that decision, the Commission (A) authorized GSWC to (i) issue, sell and deliver $177.1 million in aggregate principal offering amount of securities consisting of common shares, bonds, debentures and notes for the retirement and discharge of all or a portion of GSWC's outstanding short-term bank loans issued for temporary financing of additions to GSWC's utility plant or to reimburse GSWC for capital expenditures, for the acquisition of utility properties, refunding of existing long-term debt obligations and for projected cash requirements; (ii) carry over $47.9 million, authorized by Decision 00-12-054 and Decision 07-02-014, which did not have an expiration date and therefore remained available for use by GSWC in addition to the new authority granted by Decision 12-11-034; (iii) execute and deliver supplemental indenture(s) or loan agreement(s); and (iv) use with discretion certain features to enhance its debt securities; (B) exempted GSWC from the Commission's Competitive Bidding Rule for the issuance of (i) tax-exempt securities, (ii) medium-term notes and debt through GSWC's Medium-Term Note Program, and (iii) structured transactions; and (C) granted GSWC a waiver from the requirements of Section 818 of the California Public Utilities Code and the holding company rules issued on June 18, 1998 in Decision 98-06-068 as they apply only to GSWC's short-term borrowing arrangements, which waiver authorized GSWC to borrow under these arrangements and allowed the short-term borrowings under these arrangements to remain outstanding for a maximum period of 24 consecutive months.

As a result of Congress' passage of numerous tax law changes to encourage investment, including with regard to bonus depreciation, accelerated depreciation and repair regulations,[1] and as a result of the sale of GSWC's former Ojai water system to Casitas Municipal Water District, over the past several years, GSWC has had significantly more cash available than anticipated when A.12-07-011 was filed. Accordingly, of the $225 million of financing authority in effect as of the Commission's issuance of Decision 12-11-034, GSWC issued only $15 million of new debt and $47.5 million of common shares. Consistent with the Commission's practices reflected in Decision 00-12-054 and Decision 07-02-014, GSWC understood that the financing

[1] *See* Reporter's Transcript, Vol. 2, from Evidentiary Hearing in Proceeding A.17-04-001 *et al*. at 193, line 28, through 194, line 19.

authority in effect as of the Commission's issuance of Decision 12-11-034 would have no expiration date and would remain available until used. In such case, $162.5 million of such authority would remain available today (e.g., $177.1 million *plus* $47.9 million *equals* $225 million, *less* $15 million *less* $47.5 million *equals* $162.5 million).

There is, however, text in a critical ordering paragraph of Decision 12-11-034 which created uncertainty as to whether the financing authority issued thereunder remains in effect.[2] The ambiguity in this paragraph was raised by financing counsel when GSWC was preparing to issue debt under the authority granted by Decision 12-11-034. GSWC believed that there was a drafting error in this ordering paragraph, and that the Commission did not intend for the financing authority issued under Decision 12-11-034 to expire. Therefore, prior to filing this Application, GWSC submitted, on October 3, 2019, a request to Executive Director Stebbins, in accordance with Rule 16.5, asking that the relevant ordering paragraph be corrected to remove the language suggesting that the financing authority would expire after "the beginning of 2017." On October, 22, 2019, Executive Director Stebbins issued a letter declining GSWC's request to correct the ordering paragraph at issue and directing GSWC to file a new application if it needs additional financing authority.

GSWC anticipates substantial cash requirements in the next few years in upgrading aging infrastructure, investing in various capital projects, ensuring reliable water supply as demands increase, meeting environmental regulation, refinancing short-term debt and increasing operational

[2] That ordering paragraph provides: "Golden State Water Company is authorized to issue up to $177.1 million of new debt securities, common equity securities, and preferred equity securities to cover its needs for proper purposes over the period 2012 through the beginning of 2017, all of which are for proper purposes and consistent with the requirement of Pub. Util. Code §§ 817 and 818, except as authorized in Ordering Paragraph 13 below." *See* Decision 12-11-034 at Ordering Paragraph 1.

flexibility. As a result, over the next 5 years, GSWC anticipates a need for up to $465,000,000.[3] Therefore, GSWC is filing this Application in accordance with Director Stebbins' direction to file a new application if GSWC needs additional financing authority. GSWC requests herein authority to issue various kinds of New Securities. The types of New Securities that GSWC requests authority to issue, and their features, are described in Section VII, below.

Further, to ensure that no issue arises in connection with this Application similar to the ambiguity in Decision 12-11-034, GSWC requests that the Commission's decision issued in this proceeding state explicitly that the financing authority granted herein has no expiration date, consistent with the Commission's established practice as reflected in Decision 00-12-054 and Decision 07-02-014.

IV.
USE OF PROCEEDS FROM SALE OF SECURITIES

GSWC 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 GSWC's then existing short-term debt obligations and, to the extent there are proceeds remaining, for other purposes permitted by Section 817 of the California Public Utilities Code, including to provide for the acquisition of property and for the construction, completion, extension or improvement of GSWC's facilities, refunding of existing long-term debt obligations and for other projected cash requirements. A five-year projection of cash requirements during the calendar years 2020 through 2024 is reflected in the Statements of Cash Flow, attached as Attachment D.

[3] As discussed below, this amount excludes $75,000,000, for which financing authority has been sought in Application 18-12-019.

V.
INTERACTION WITH OTHER PROCEEDING

On December 14, 2018, GSWC, for itself and on behalf of its Bear Valley Electric Service division, and together with Bear Valley Electric Service, Inc., filed Application 18-12-019 ("A.18-12-019"), requesting authority to implement a corporate reorganization plan that will transfer electric utility operations from Bear Valley Electric Service, operating as a division of GSWC, to Bear Valley Electric Service, Inc., which would be a wholly-owned subsidiary of ASWC, GSWC's parent company (the "Corporate Reorganization"). Included within A.18-12-019 is a request for Bear Valley Electric Service, Inc. to have authority to issue securities not exceeding $75,000,000 in aggregate offering amount (the "BVES Inc. Financing Authority").

The instant Application assumes that the Commission will promptly authorize the Corporate Reorganization and grant the BVES Inc. Financing Authority requested in A.18-12-019 and that such decision will become final before GSWC will utilize all of the financing authority requested in this Application. Accordingly, the $465,000,000 of New Securities requested herein is based on the projected funding needs of the water operations of GSWC through 2024, and excludes the request in A.18-12-019 associated with electric utility operations. The instant Application does not include the $75,000,000 that GSWC projects will be needed to finance the operations of the electric utility currently operating as the Bear Valley Electric Service division of GSWC through 2023 because GSWC believes that the Commission will approve that level of financing in A.18-12-019.

Specifically, the statements of GSWC's budgeted expenditures for 2019 and 2020 and proposed expenditures for 2021 through 2024 included in Attachment D to this Application include budgeted expenditures for both the water operations of GSWC and the electric operations of Bear Valley Electric Service. Per the anticipated expenditures set forth therein, $540,000,000 will be needed in the aggregate for both water and electric operations, but this Application requests financing authority for only $465,000,000. In the event that the Commission does not authorize the Corporate Reorganization and grant the BVES Inc. Financing Authority, or in the event that a Commission decision granting the BVES Inc. Financing Authority does not become final on a timely basis, then GSWC projects that the $465,000,000 of New Securities requested herein will not be sufficient to cover both the water operations of GSWC and the electric operations of Bear Valley Electric Service all the way through the end of 2024. In such case, GSWC expects that it would need to request additional financing authority at an earlier date than presently anticipated (i.e., before the end of 2024). Based upon the Statements of Cash Flow, attached as Attachment D, if the BVES Inc. Financing Authority is not granted or if the Commission's decision granting the BVES Inc. Financing Authority has not become final by mid-2023, GSWC expects that it would need to request additional financing authority at such time.

VI.

DESCRIPTION OF THE NEW EQUITY SECURITIES

GSWC hereby seeks authority to issue and sell the New Equity Securities for the purposes set forth in Section IV. The New Equity Securities include common shares and preferred shares, as described below.

<u>Common shares</u>. GSWC, by this Application, hereby seeks authority to issue, sell and deliver from time to time <u>common</u> shares to its parent, ASWC, for capital expenditures and other purposes permitted by Section 817 of the California Public Utilities Code.

Preferred Shares.[4] GSWC's sale of preferred shares, if any, would be effected through the offering and sale of such shares to the public, by private placements with institutional or other investors or to its parent. The amount, timing of the sale and the securities features have not yet been determined and would be established by GSWC prior to the offering based on its funding requirements, and prevailing and anticipated market conditions. The terms and conditions of such securities may include, without limitation, liquidation preferences, dividend preferences or requirements, and redemption features.

GSWC has not entered into any purchase agreement as of this time and does not anticipate doing so with ASWC or any other party until the actual requirement for the issuance of the New Equity Securities is determined. GSWC seeks authority at this time to issue the New Equity Securities, rather than waiting until a determination has been made by its Board of Directors to issue New Equity Securities or until all agreements have been executed, so as to have authority, when and if necessary, to sell the New Equity Securities in an expeditious and efficient manner and to receive timely equity infusion.

VII.
DESCRIPTION OF THE NEW DEBT SECURITIES

GSWC 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 GSWC. The fluctuating conditions of the financial market do not allow GSWC to ascertain which of its New Debt Securities (or combination thereof) would provide

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[4] Currently, GSWC's Articles of Incorporation do not permit the issuance of preferred shares. Accordingly, prior to issuing preferred shares, if any, GSWC would take the necessary steps to amend its Articles of Incorporation. Upon doing so, GSWC would submit such amended Articles of Incorporation to the Commission.

the most favorable terms to GSWC at this time. GSWC 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.

Bonds and Debentures: It is anticipated that bonds or debentures would be sold for cash at an interest rate to be determined by GSWC's board of directors, or a committee thereof, 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 forty years or more and could be non-redeemable or may be redeemable at the option of GSWC 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 might 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 GSWC 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 GSWC 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 GSWC. 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. GSWC hereby requests authorization to execute and deliver, as necessary, new indentures, supplemental indentures or board resolutions in the form which GSWC believes appropriate and which reflects 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 GSWC, relieving GSWC from the risk and responsibility of selling and distributing the bonds or debentures. Subsequently the underwriter sells the issue to other investors. When the bonds or debentures are sold on an agency basis, the investment banker will act as a broker for GSWC and will uses its best efforts to sell the issue at a stipulated price; GSWC bears the risk if the entire issue is not sold.

Medium-term Notes: It is anticipated that medium-term notes would be sold for cash at an interest rate to be determined by GSWC's board of directors, or a committee thereof, in light of market conditions at the time of sale. The medium-term notes will 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, adjusted 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 (9) months to thirty (30) years. At the option of GSWC, 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.

The medium term notes may be convertible into New Equity Securities, may be issued at par or with an original issue discount and may contain other terms customary in transactions of this type.

If issued by public offering, the medium-term notes will be issued pursuant to (A) an Indenture dated September 1, 1993 (the "Indenture"), which was filed with the Commission in connection with GSWC's issuance of its Series A Medium-Term Notes, or (B) supplemental indentures or board resolutions as provided by the Indenture. Such supplemental indentures or board resolutions 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.

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

The medium-term notes may be sold on a firm commitment or agency basis.

Loans: GSWC may obtain loans with a maturity of greater than one (1) year, pursuant to term loans with banks, insurance companies, private debt funds, business development companies, or other financial institutions on a negotiated basis. GSWC may obtain such loans either when loans can result in an overall cost of money lower than that available through the issuance of alternative New Debt Securities or when GSWC finds that interest rates or other circumstances appear unfavorable or that it is otherwise unable to issue alternative New Debt Securities on acceptable terms.

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 GSWC by a bank or other financial institution or financial guaranty insurance issued by an insurance company. GSWC 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 GSWC believes appropriate and which reflects the terms of the loans.

Tax-Exempt Debt: GSWC 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 GSWC's capital expenditures. GSWC 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, GSWC 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, GSWC 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, GSWC 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.

GSWC 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 GSWC believes appropriate and which reflects the terms of the tax-exempt debt financing arrangements.

VIII.
FEATURES TO ENHANCE NEW DEBT SECURITIES

GSWC hereby requests authorization to include at its discretion one or a combination of the following additional features in the New Debt Securities. Such features will be used as appropriate to improve the terms and conditions to GSWC and to lower GSWC's overall costs for the benefit of its customers. GSWC further requests that these instruments not be counted against its authorized amount of New Securities since these instruments would not affect the amount of the underlying securities issued.

Put Option. GSWC anticipates that from time to time the cost of the New Debt Securities may be reduced by the inclusion of a put option. This feature would allow the holders of the New Debt Securities to require GSWC to repurchase all or a portion of each holder's securities. This feature would give the New Debt Securities holders, under certain circumstances, the right to require GSWC to buy the New Debt Securities back from the New Debt Securities holders. New Debt Securities holders are often willing to accept a lower interest rate in exchange for the protection against rising interest rates offered by a put option.

Call Option. GSWC anticipates that from time to time, the overall cost of the New Debt Securities may be reduced by the inclusion of a call option. This feature would allow GSWC to retire, fully or partially, a New Debt Security before the scheduled maturity date. The key benefit of such a feature is that it permits GSWC, should market rates fall, to replace the New Debt Securities issue with a lower-cost issue, thus producing a positive net benefit to ratepayers. This feature is the reverse of a put option and is beneficial when interest rates are anticipated to be lower over time. Call options are usually available with a premium, but, in light of the flexibility it provides towards portfolio management, can in certain circumstances be a valuable tool and lower total portfolio costs.

Sinking Fund. GSWC anticipates that, from time to time, the cost of the New Debt Securities may be reduced by the use of a sinking fund. A sinking fund typically operates in one of two ways: (i) GSWC may set aside a sum of money periodically so that, at the maturity date of the New Debt Securities, there is a pool of cash available to redeem the issue, or (ii) GSWC may periodically redeem a specified portion of the New Debt Securities. While it has been the case that at times, for issuers of investment-grade debt, the market has not valued the sinking fund option sufficiently to warrant its use, GSWC wishes to preserve the ability to use this feature should a market preference for such an option be indicated.

IX.
INTEREST RATE MANAGEMENT TECHNIQUES

GSWC requests authorization to utilize at its discretion one or more of the following interest rate management techniques in connection with the issuances of New Debt Securities and/or preferred stock. These management techniques may be used as appropriate to minimize GSWC's exposure to potential interest rate increases for the benefit of its customers. Further, GSWC requests that the following techniques not be counted against the authorized amount of New Securities since such instruments do not affect the amount of the underlying securities that would be issued by GSWC.

Treasury lock. GSWC may utilize this technique to lock in the Treasury yield component of GSWC's borrowing cost. When GSWC is planning to issue New Debt Securities or preferred stocks, it can enter into a contract to sell short either Treasury securities or Treasury security futures, with the contract maturity comparable to date of the planned issuance. If interest rates rise, GSWC will cover its short Treasury position at a profit, which will be offset by the higher interest cost of the newly-issued securities. If interest rates decline, GSWC will cover its short Treasury position at a loss, but the loss will be offset by the lower cost on the newly-issued securities.

Treasury option. GSWC may also utilize Treasury options as an alternative to the Treasury lock. The Treasury put options give the right but not the obligation to the purchaser of the option to sell Treasury securities at a specified yield (the "strike yield"). With a purchased Treasury put option, if interest rates rise above the put option's strike yield, GSWC will exercise the put, in which case, the resulting profit offsets the increased cost of borrowing. If interest rates decline, GSWC may let the put option expire and issue New Securities at the current lower interest rates.

Forward-starting interest rate swap. GSWC may use a forward-starting interest rate swap to lock in a fixed-rate prior to the issuance of floating-rate New Debt Securities if it anticipates interest rates will increase by the time of the issuance.

Spread lock. GSWC may lock in the credit spread by using derivatives like a credit spread forward. Typically, the interest rate of debt is the sum of a spread ("credit spread") and the interest rate of a Treasury security of the same maturity. For example, the interest rate of the proposed 10-year debt can be quoted as 100 basis points (1.0%) over the 10-year Treasury bond. Even when the underlying Treasury yield remains stable, the credit spread may fluctuate depending on general market conditions. If GSWC enters into a credit spread forward contract, when the credit spread increases, the credit spread forward will generate a profit, offsetting the higher cost of the newly-issued New Debt Securities or preferred stocks. If the credit spread declines, the loss from the credit spread forward will be offset by the lower cost of the newly-issued securities.

Spread option. GSWC may use credit spread options as an alternative to credit spread forwards. With a purchased credit spread call option, if the spread increases over the specified spread level (the "strike spread") GSWC will exercise the option and use the profit to offset the higher cost of the newly-issued securities. If the spread declines below the strike spread, GSWC may let the option expire and retain the lower cost of newly-issued securities.

Interest rate swap. GSWC anticipates that, from time to time, its exposure to potential interest rate risk can be minimized by the use of interest rate swaps. An interest rate swap is a contractual agreement between two parties to exchange a series of payments for a stated period. In a typical interest rate swap, one party issues fixed-rate debt while another issues floating rate debt, and the two swap interest payment obligations based on a notional principal amount. GSWC may enter into interest rate swap contracts to convert floating interest rate to fixed in order to minimize potential interest rate risk to the ratepayers.

Cap and collar. GSWC anticipates that, from time to time, in order to reduce ratepayers' exposure to interest rate risk on variable-rate securities, GSWC may enter into a cap or collar contract. Under the cap contract, even if the variable rates increase over the cap (ceiling) rate, GSWC would only pay the cap rate. Under a collar contract the effective variable interest rates will remain between a cap rate and a floor rate. When the interest rates are higher than the cap rate, GSWC will only pay the cap rate. When the rates are lower than the floor rate, GSWC will pay the floor rate. A collar contract generally allows for a lower cap rate than a similar cap contract would allow.

X.
NEW FINANCING RULE

Rules adopted in Commission Decision No. 12-06-015 issued on June 7, 2012 (referred to as "New Financing Rule")[5] replaced the Competitive Bidding Rule under Commission 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 New 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 use of the New Financing Rule.

Supplier Diversity Program. In compliance with Sections 8281-8286 of the California Public Utilities Code and the Commission's General Order 156, GSWC implemented its Utility Supplier Diversity Program ("USDP") program in 2004. GSWC's USDP encourages businesses owned by women, minorities, and disabled veterans to supply GSWC with needed products and services. In GSWC's 2018 Annual Report on the Utilization of WMDVBE, GSWC reported that 32.5% of its 2018 annual procurement expenditures were awarded to WMDVBE firms. GSWC continues to educate employees about USDP and participates in outreach events for WMDVBE.

GSWC 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, GSWC will use its best efforts to encourage the secondary use of diverse suppliers by its elected suppliers, within the spirit of it supplier diversity program. GSWC will continue its commitment to use its best efforts to encourage the participation of diverse suppliers on future financings.

XI.
AUTHORIZATION TO ALLOW SHORT-TERM BORROWINGS OUTSTANDING FOR A PERIOD UP TO 24 MONTHS

Section 818 of the California Public Utilities Code ("Section 818") and the holding company rules issued on June 18, 1998 in Decision 98-06-068 restrict the issuance of short-term

[5] Decision 12-06-015 adopted the New Financing Rule and General Order 24-C.

debt to a 12-month period. Both rules require a utility to receive prior approval from the Commission of any indebtedness payable at periods of more than 12 months after the date of issuance. Consistent with Decision 07-02-014 and Decision 12-11-034, which granted GSWC's request to waive the requirements of Section 818, GSWC is again requesting that the Commission waive in this Application the requirements of Section 818 and the holding company rules only as they apply to GSWC's short-term borrowings under its borrowing arrangements described below, and that it be allowed to increase the period of time that its short-term borrowings under such arrangements be outstanding from the present maximum period of 12 months to a maximum period of 24 consecutive months, with such waiver to remain in effect until the date that the financing authority granted pursuant to this Application is fully used.

GSWC uses amounts borrowed under borrowing arrangements for working capital purposes and such borrowings are managed as short-term debt. Under GSWC's existing short-term borrowing arrangements, amounts are borrowed and repaid based on GSWC's monthly cash needs to fund current operations. On a month-to-month basis, GSWC can be in a net borrowing or net payment position depending on its cash availability, but in any event such net outstanding borrowings are brought down to zero at least once every 12 months in accordance with Section 818 and the holding company rules. With this waiver request, GSWC would be allowed to bring the balance down to zero at least once every 24 months. Even with the waiver, GSWC will continue using amounts borrowed under its short-term borrowing arrangements for working capital purposes and will continue to manage such borrowings as short-term debt.

Such a waiver would give GSWC 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 these arrangements. Moreover, allowing the waiver to remain in effect until the financing authority granted in this proceeding is fully utilized will afford GSWC additional flexibility to go out to the market for long-term debt at times when favorable borrowing rates are available. Such a waiver would also reduce the costs of obtaining long-term capital by enabling GSWC 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. In granting the corollary request in Decision 12-11-034, 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.[6] 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.[7] The Commission 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.[8] The Commission's reasoning remains equally true today. Accordingly, the waiver requested herein from the requirements of Section 818 and the holding company rules issued on June 18, 1998 in Decision 98-06-068, as they apply only to GSWC's short-term borrowing arrangements, is warranted.

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

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

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

XII.
PROPOSED CATEGORIZATION, NEED FOR HEARING AND PROPOSED SCHEDULE

In accordance with Rule 7.1 (a), GSWC provides the following information concerning "the proposed category for the proceeding, the need for hearing, the issues to be considered, and a proposed schedule."

GSWC proposes to categorize this Application as a "ratesetting" proceeding within the meaning of Rules 1.3 (e) and 7.1 (e). As such, GSWC files with this Application as Attachments A through F supplemental information pertaining to the authorizations requested in this Application as required by Public Utilities Code §§ 816-830. GSWC believes that no hearing is necessary in this proceeding and respectfully requests that the Commission find that no hearing is necessary in respect of this Application. *Ex parte* grant of the authorizations sought herein at the earliest possible date will permit GSWC to proceed with its proposed financings in an expeditious manner. Such expeditious treatment will, in turn, allow GSWC 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, GSWC requests that such hearing be conducted as soon as practicable. GSWC is prepared to proceed with any necessary hearing.

GSWC proposes the following procedural schedule:

EVENT	DATE
Application filed	November 26, 2019
Protests filed, if any	30-days after notice of filing in the Commission's Daily Calendar (approx. January 2, 2020)
ALJ Draft Decision	February 3, 2020
Comments on Draft Decision	February 24, 2020
Final Commission Decision	March 12, 2020

The issues in this proceeding are whether GSWC should be authorized, pursuant to and consistent with California Public Utilities Code §§ 816-830, to issue the securities described herein with the features described herein, enter into one or more interest rate management agreements and whether GSWC should be authorized, where appropriate, to be exempt from the Commission's Competitive Bidding Rule. GSWC is unaware of any specific objections any party might raise to any of these issues.

XIII.

ATTACHMENTS

Attachments A through F described below are incorporated into this Application:

- *Attachment A* contains a copy of GSWC's bylaws.
- *Attachment B* contains a copy of GSWC's Restated Articles of Incorporation.
- *Attachment C* contains GSWC's Financial Statements for the year ended December 31, 2018 and the nine months ended September 30, 2019.
- *Attachment D* contains the following statements:

1. Capitalization ratios as of December 31, 2018 and projected ratios as of December 31, 2019 through 2024, which include the effects of the issuance of $465,000,000 in securities, the authority for which is requested in this Application, and the issuance of $75,000,000 in securities, the authority for which is requested in A.18-12-019.

2. Statements of GSWC's capital to reflect actual expenditures for 2018, budgeted expenditures for 2019 and 2020 as approved by its board of directors, or a committee thereof, and proposed expenditures for 2021 through 2024.

3. Statements of Cash Flow estimated for the years ending December 31, 2019 through 2024 and actual for the year ended December 31, 2018.

- *Attachment E* contains the latest proxy statement of ASWC, which was filed with the U.S. Securities and Exchange Commission on April 5, 2019.
- *Attachment F* contains the latest available financial statements (Form 10-Q) of ASWC and Golden State Water Company as of September 30, 2019, which was filed with the U.S. Securities and Exchange Commission on November 4, 2019.

XIV. REQUESTED AUTHORIZATIONS

WHEREFORE, GSWC respectfully requests that the Commission:

(1) Authorize GSWC to issue, sell and deliver by public offering or private placement securities not exceeding $465,000,000 in aggregate offering amount, said New Securities consisting of, but not limited to, (i) New Equity Securities consisting of common shares and preferred shares, and (ii) New Debt Securities consisting of bonds, debentures, notes, and other evidences of indebtedness, in each case on terms and conditions in accordance with this Application at any time;

(2) Authorize GSWC to use the net proceeds to be received from the New Securities for the purposes permitted under Section 817 of the California Public Utilities Code, including (i) the retirement and discharge of all or a portion of its then outstanding short-term debt issued for temporary financing of additions to GSWC's utility plant, (ii) reimbursement of GSWC for capital expenditures and for the acquisition of utility properties, and (iii) refunding existing long-term debt obligations;

(3) Authorize GSWC 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 GSWC to utilize interest rate management techniques to enhance its New Debt Securities in accordance with this Application;

(5) Specify that the features enhancing debt securities and interest rate management techniques set forth in Sections VIII and IX, respectively, shall not be counted against GSWC's authorized amount of New Securities since these instruments would not affect the amount of the underlying securities issued;

(6) Until the date that the authority granted pursuant to this Application is fully used, grant GSWC a waiver from the requirements of Section 818 of the California Public Utilities Code and the holding company rules issued on June 18, 1998, in Decision 98-06-068, as they apply only to GSWC's short-term borrowing arrangements. The waiver would authorize GSWC to borrow under these arrangements and would allow the short-term borrowings under these arrangements to remain outstanding for a maximum period of 24 consecutive months;

(7) Specify that the authority granted pursuant to this Application does not have an expiration date;

(8) 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 California Public Utilities Code;

(9) Specify that it would be reasonable for GSWC to request additional financing authority if a decision of the Commission in A.18-12-019 (the application seeking to "spin-off" the Bear Valley Electric Service division of GSWC into a stand-alone subsidiary of ASWC) does not grant the financing authority requested in A.18-12-019 or does not become final before the financing authority requested in this Application is exhausted; and

(10) Grant such other and further relief as the Commission may deem to be appropriate in this matter.

DATED: at San Dimas, California on November 26, 2019.

Respectfully submitted,

GOLDEN STATE WATER COMPANY

By: ______________________

Keith Switzer
Vice President - Regulatory Affairs

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 November 26, 2019, in the City of San Dimas, California.

Keith Switzer
Vice President – Regulatory Affairs
Golden State Water Company

ATTACHMENT A

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. 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 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. 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.

ATTACHMENT B

A0634227

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

SEP 30 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

ATTACHMENTS C and D

Attachment C
Golden State Water Company
Balance Sheets
As of September 30, 2019 and December 31, 2018
(Unaudited)

Assets

(in thousands)	September 30, 2019	December 31, 2018
Utility Plant, at cost		
Water	$ 1,711,162	$ 1,649,535
Electric	107,187	106,064
	1,818,349	1,755,599
Less - Accumulated depreciation	(565,353)	(551,244)
	1,252,996	1,204,355
Construction work in progress	105,834	76,737
Net utility plant	1,358,830	1,281,092
Other Property and Investments		
Other property and investments	25,495	23,263
Total other property and investments	25,495	23,263
Current Assets		
Cash and cash equivalents	4,453	4,187
Accounts receivable - customers, less allowance for doubtful accounts	28,088	23,395
Unbilled revenue - receivable	20,299	17,892
Other accounts receivable, less allowance for doubtful accounts	1,454	1,959
Income taxes receivable from Parent	-	5,617
Materials and supplies	5,053	4,797
Regulatory assets - current	14,819	16,527
Prepayments and other current assets	5,599	5,275
Total current assets	79,765	79,649
Other Assets		
Operating lease right-of-use assets	12,494	-
Other	5,325	5,218
Total other assets	17,819	5,218
Total Assets	$ 1,481,909	$ 1,389,222

Attachment C (continued)
Golden State Water Company
Balance Sheets
As of September 30, 2019 and December 31, 2018
(Unaudited)

Capitalization and Liabilities

(in thousands)	September 30, 2019	December 31, 2018
Capitalization		
Common shares, no par value, no stated value	$ 293,658	$ 292,412
Earnings reinvested in the business	245,496	211,163
Total common shareholder's equity	539,154	503,575
Long-term debt	281,001	281,087
Total capitalization	820,155	784,662
Current Liabilities		
Long-term debt - current	344	40,320
Accounts payable	51,104	47,865
Accrued other taxes	10,459	9,911
Accrued employee expenses	10,389	11,910
Accrued interest	6,177	3,550
Income taxes payable to Parent	1,420	-
Unrealized loss on purchased power contracts	3,022	311
Operating lease liabilities	1,559	-
Other	10,223	9,432
Total current liabilities	94,697	123,299
Other Credits		
Intercompany payable to Parent	151,240	57,289
Advances for construction	63,788	66,305
Contribution in aid of construction - net	129,343	124,385
Deferred income taxes	121,938	118,241
Regulatory liabilities	20,083	44,867
Unamortized investment tax credits	1,313	1,367
Accrued pension and other postretirement benefits	57,042	57,636
Operating lease liabilities	11,331	-
Other	10,979	11,171
Total other credits	567,057	481,261
Total Capitalization and Liabilities	$ 1,481,909	$ 1,389,222

Attachment C (continued)
Golden State Water Company
Statements of Income
For the Nine Months Ended September 30, 2019 and Twelve Months Ended December 31, 2018
(Unaudited)

(in thousands)	Nine Months Ended September 30, 2019	Twelve Months Ended December 31, 2018
Operating Revenue		
Water	$ 248,112	$ 295,258
Electric	30,033	34,350
Total operating revenue	278,145	329,608
Operating Expenses		
Water purchased	55,263	68,904
Power purchased for pumping	6,562	8,971
Groundwater production assessment	14,020	19,440
Power purchased for resale	8,498	11,590
Supply cost balancing accounts	(2,845)	(15,649)
Other operation	19,643	25,334
Administrative and general expenses	44,977	62,156
Depreciation and amortization	24,354	38,395
Maintenance	7,788	13,104
Property and other taxes	13,622	16,809
Gain on sale of assets	(83)	(8)
Total operating expenses	191,799	249,046
Operating Income	86,346	80,562
Other Income and Expenses		
Interest expense	(17,985)	(22,621)
Interest income	1,497	2,890
Other, net	2,153	784
Total other income and expenses	(14,335)	(18,947)
Income from operations before income tax expense	72,011	61,615
Income tax expense	17,329	13,603
Net Income	$ 54,682	$ 48,012

Attachment C (continued)
Golden State Water Company
Supplemental Information to the Financial Statements
Issuances of Debt & Equity Outstanding as of September 30, 2019

(a) Amount and type of stock authorized by Articles of Incorporation and amount oustanding.

	Outstanding	Authorized
Common shares	165 shares no par value no stated value	1,000 shares
Preferred stock	None	None

(b) Mortgages

GSWC does not have any mortgaged debt outstanding as of September 30, 2019.

(c) Amount of long tem debt issued (in thousands).

	Amount Outstanding as of September 30, 2019	Year Issued	Annual Interest Paid
Notes / Debentures			
6.81% notes due 2028	$15,000	1998	$1,022
6.59% notes due 2029	$40,000	1999	$2,636
7.875% notes due 2030	$20,000	2001	$1,575
7.23% notes due 2031	$50,000	2001	$3,615
6.00% notes due 2041	$62,000	2011	$3,720
Private Placement Notes			
3.45% notes due 2029	$15,000	2009	$518
9.56% notes due 2031	$28,000	1991	$2,677
5.87% notes due 2028	$40,000	2005	$2,348
Tax-Exempt Obligations			
5.50% notes due 2026	$7,730	1996	$425
State Water Project due 2035	$3,563	1994	$184
Other Debt Instruments			
ARRA obligation due 2033	$3,406	2011	$153
	$284,699		
Debt Issuance Costs	(3,354)		
Per Financial Statements	**$281,345**		

Attachment D

1 - Golden State Water Company Statement of Capitalization Ratios

(in Thousands Except Percentage)

	Recorded December 31, 2018	Projected as of December 31, 2019	2020	2021	2022	2023	2024
Long Term Debt [1] [2]	$ 321,407	$ 281,430	$ 455,826	$ 426,893	$ 538,876	$ 538,814	$ 650,859
Common Equity [2]	503,575	544,678	603,797	600,225	705,925	746,827	857,535
Total Capitalization	$ 824,982	$ 826,108	$ 1,059,623	$ 1,027,118	$ 1,244,801	$ 1,285,641	$ 1,508,394
Capital Ratio							
Debt	39.0%	34.1%	43.0%	41.6%	43.3%	41.9%	43.1%
Equity	61.0%	65.9%	57.0%	58.4%	56.7%	58.1%	56.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

[1] Includes current portion of long term debt, net of debt issuance costs

[2] Includes financing requested in this application.

	2019	2020	2021	2022	2023	2024	Total 2019 - 2024
Schedule of Security Issuances*							
New Debt Issuance	$ -	$ 175,000	$ -	$ 112,500	$ -	$ 112,500	$ 400,000
New Equity Issuance	-	35,000	-	52,500	-	52,500	140,000
Total Security Issuance	$ -	$ 210,000	$ -	$ 165,000	$ -	$ 165,000	$ 540,000

Total New Debt Issuances	$ 400,000
Total New Equity Issuances	140,000
	$ 540,000
Water	$ 465,000
Electric	75,000
	$ 540,000

*schedule assumes the Commission will grant GSWC a waiver from the requirements of Section 818 of the California Public Utilities Code.

Attachment D (continued)
2 - Golden State Water Company Projected Capital Expenditures Included in Statement of Cash Flows
(in Thousands)

	Actual	Projected						
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total 2019 - 2024**
Water								
General								
Land	$ 69	$ 760	$ -	$ -	$ -		$ -	$ 760
Source of water supply	23,642	30,846	31,726	42,336	42,336	42,336	43,606	233,186
Transmission and distribution	52,606	55,746	47,414	58,709	63,799	69,067	71,918	366,652
Water treatment	1,580	2,802	8,542	11,399	11,399	11,399	11,741	57,282
Other	3,188	255	1,442	1,925	1,925	1,925	1,983	9,455
Total General	81,087	90,409	89,124	114,369	119,459	124,727	129,248	667,334
Blankets*	27,602	24,606	23,283	31,069	31,069	31,069	32,001	173,098
New Business	3,049	3,448	3,512	3,577	3,643	3,711	3,780	21,671
Total Water	111,737	118,463	115,918	149,015	154,171	159,507	165,029	862,103
Total Electric	4,617	12,166	33,307	14,451	12,689	9,887	11,688	94,188
Total Water & Electric	**$ 116,354**	**$ 130,629**	**$ 149,225**	**$ 163,466**	**$ 166,860**	**$ 169,394**	**$ 176,717**	**$ 956,291**

*Blankets consist primarily of meters and services as well as minor main replacements and other minor plant related capital.

Attachment D (continued)
3 - Golden State Water Company Statements of Cash Flow
(in Thousands)

	Actual	Projected						
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total 2019 - 2024**
Cashflow from Operating Activities	$ 120,439	$ 92,995	$ 120,120	$ 127,174	$ 139,358	$ 146,965	$ 152,954	$ 779,567
Cashflow from Investing Activities	(117,898)	(130,629)	(149,225)	(163,466)	(166,860)	(169,394)	(176,717)	(956,291)
Cashflow from Financing Activities								
Proceeds from issuance of Common Shares to Parent	47,500	-	35,000	-	52,500	-	52,500	140,000
Proceeds from issuance of long-term debt	-	-	175,000	-	112,500	-	112,500	400,000
Repayments of long-term debt	(326)	(40,280)	(344)	(28,365)	(392)	(406)	(425)	(70,212)
Dividends paid	(68,850)	(21,344)	(40,406)	(69,875)	(24,435)	(42,937)	(32,937)	(231,934)
Net short-term borrowings & other	23,108	95,071	(117,754)	112,139	(112,671)	65,773	(84,687)	(42,130)
Total Cashflow from Financing Activities	1,432	33,447	51,496	13,899	27,502	22,430	46,951	195,725
Total net cash provided	3,973	(4,187)	22,392	(22,393)	(0)	(0)	23,188	19,001
Cash and Cash Equivalents, Beginning of Period	214	4,187	0	22,392	(0)	0	(0)	4,187
Cash and Cash Equivalents, End of Period	$ 4,187	$ 0	$ 22,392	$ (0)	$ 0	$ (0)	$ 23,188	$ 23,188

ATTACHMENT E

ATTACHMENT E

American States Water Company

Notice of 2019 Annual Meeting of Shareholders

Date:	May 21, 2019
Time:	10:00 a.m., Pacific Time
Location:	The Westin 191 N. Los Robles Avenue Pasadena, California 91101
Record Date:	March 22, 2019
Agenda:	To elect the following directors to class II of the board of directors to serve until the annual meeting in 2022 or until their successors are duly elected and qualified: Dr. Diana M. Bontá Ms. Mary Ann Hopkins Mr. Robert J. Sprowls; Advisory vote to approve the compensation of our named executive officers; To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm; and To transact any other business which may properly come before the 2019 annual meeting or any adjournment thereof.

By order of the board of directors:

Eva G Tang

Eva G. Tang
Corporate Secretary

San Dimas, California
April 4, 2019

Important Notice Regarding the Availability of Proxy Materials
For the Shareholders Meeting to Be Held on May 21, 2019

Pursuant to rules adopted by the Securities and Exchange Commission, we have elected to furnish our proxy statement, a proxy card and our Annual Report on Form 10-K for the year ended December 31, 2018 primarily via the Internet at *www.proxyvote.com*. As a result, on or about April 4, 2019, we are mailing to most of our shareholders a Notice of Internet Availability of Proxy Materials. This Notice contains instructions on how to access our proxy materials over the Internet and how to request a paper copy of our proxy materials. On or about April 4, 2019, we are mailing to all our remaining shareholders a paper copy of our proxy materials. Shares must be voted either by telephone, Internet or by completing and returning a proxy card as provided in our proxy statement. Shares cannot be voted by marking, writing on and/or returning this Notice or any other notice regarding our proxy materials.

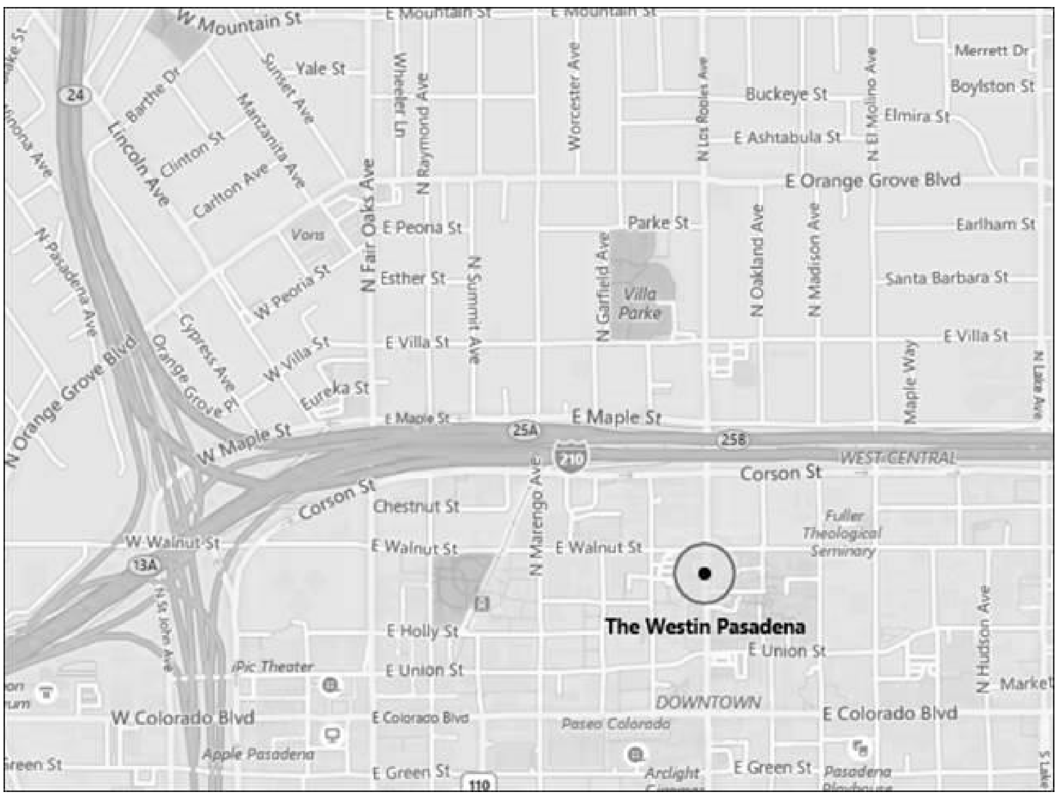
Directions for Attending the 2019 Annual Meeting

We will hold the 2019 annual meeting at The Westin, 191 N. Los Robles Avenue, Pasadena, California 91101.

For shareholders of record, either the detachable portion of your proxy card or your Notice is your ticket to the 2019 annual meeting. Please present your ticket when you reach the registration area at the 2019 annual meeting.

For shareholders who hold shares through a brokerage firm, bank or other shareholder of record, your admission ticket is the copy of your latest account statement showing your investment in our common shares. Please present your account statement to one of our representatives at the 2019 annual meeting. You cannot vote your shares at the 2019 annual meeting unless you have obtained a legal proxy from your broker, bank or other shareholder of record. A copy of your account statement is not sufficient for this purpose.

Directions to The Westin



American States Water Company

Proxy Statement for 2019 Annual Meeting

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April 4, 2019

American States Water Company
630 East Foothill Blvd.
San Dimas, California 91773

2019 Proxy Statement

The Securities and Exchange Commission, or SEC, has adopted rules to allow us to elect to use the Internet as our primary means of furnishing our proxy statement, electronic proxy card and our Annual Report on Form 10-K for the year ended December 31, 2018 to our shareholders. As a result, on or about April 4, 2019, we are mailing to most of our shareholders a Notice of Internet Availability of Proxy Materials referred to herein as the Notice. The Notice contains instructions on how to access our proxy materials over the Internet at www.proxyvote.com and how to request a paper copy of our proxy materials. The proxy materials will be posted on the Internet no later than the date we begin mailing the Notice. On or about April 4, 2019, we are mailing to all remaining shareholders a paper copy of our proxy materials. We are sending a Notice or proxy materials to each of our shareholders of record in connection with the solicitation by our board of directors of proxies to be voted at our 2019 annual meeting and any adjournments thereof.

We have set the record date for determining the shareholders entitled to vote at the 2019 annual meeting as the close of business on March 22, 2019. As of March 22, 2019, we had 36,795,218 common shares outstanding. We do not have any other outstanding equity securities. Each of our common shares is entitled to one vote.

We will hold our 2019 annual meeting on May 21, 2019 at 10:00 a.m., Pacific Time, at The Westin, 191 N. Los Robles Avenue, Pasadena, California 91101.

INFORMATION ABOUT THE 2019 ANNUAL MEETING

What is the purpose of the 2019 annual meeting?

At our 2019 annual meeting, we will ask our shareholders to elect directors to class II who will serve until our annual meeting of shareholders in 2022 or until our shareholders duly elect their qualified successors. We are seeking advisory votes on the compensation that we pay our named executive officers, commonly referred to as a "say-on-pay" proposal. In addition, we will ask shareholders to ratify the appointment of PricewaterhouseCoopers LLP as the company's independent registered public accounting firm and to vote on any other matter, which may properly come before the 2019 annual meeting or any adjournment, including any proposal to adjourn the 2019 annual meeting.

Even if you can attend the 2019 annual meeting, we encourage you to vote early using the mail, telephone or Internet methods described below.

Who may attend the 2019 annual meeting?

Our shareholders and our representatives may attend our 2019 annual meeting. If you are a shareholder of record on the record date, you *must* bring either the detachable portion of your proxy card or your Notice to gain admission to our 2019 annual meeting. You are a shareholder of record if your shares are registered directly in your name. We mailed this proxy statement or the Notice directly to you if you are a shareholder of record.

If you are a shareholder who holds shares through a brokerage firm, bank or other shareholder of record on the record date, you *must* bring a copy of your latest account statement showing your investment in our common shares. If you are a beneficial owner of our shares, your broker, bank, trustee or nominee sent this proxy statement or the Notice to you.

How may I vote my shares in person at the 2019 annual meeting?

If you are the shareholder of record, you may vote your shares in person at the 2019 annual meeting if you have either the detachable portion of your proxy card or your Notice as proof of identification. If you are the beneficial owner of shares held in street name, you may vote your shares at the meeting if you obtained a legal proxy from your broker, bank or other shareholder of record. Participants in Golden State Water Company's 401(k) plan may not vote their 401(k) shares in person at the 2019 annual meeting since the 401(k) plan trustee is the shareholder of record of these shares.

How may I vote my shares without attending the 2019 annual meeting?

All proxies that shareholders properly sign *and* return, unless properly revoked, will be voted at the 2019 annual meeting or any adjournment thereof in accordance with the instructions indicated on the proxy.

You may vote your shares without attending the 2019 annual meeting by mail, telephone or Internet.

Voting by Mail

- If you received a paper copy of the proxy materials, you may sign, date and return your proxy card in the pre-addressed, postage-paid envelope provided.

Voting by Telephone

- You may vote by proxy using the toll-free telephone number listed on the proxy card. Please have your Notice or the proxy card in hand before calling.
- If your shares are held through a brokerage firm, bank or other shareholder of record, you may vote by telephone *only if* the shareholder of record (broker, bank or other shareholder of record) offers that option to you.
- Votes submitted by telephone must be received by 11:59 p.m., Eastern Time, on May 20, 2019 to be voted at the 2019 annual meeting. Participants in Golden State Water Company's 401(k) plan may vote their 401(k) plan shares by telephone but must do so by the date set forth below.

Voting by Internet

- You may also vote by proxy using the Internet. The Internet address is www.proxyvote.com, which is also listed on the Notice and the proxy card. Please have the proxy card or Notice in hand before going online. You may also view our proxy statement and 2018 annual report at this website. If your shares are held through a brokerage firm, bank or other shareholder of record, you may vote by the Internet *only if* the shareholder of record (broker, bank or other shareholder of record) offers that option to you.
- Votes submitted by Internet must be received by 11:59 p.m., Eastern Time, on May 20, 2019 to be voted at the 2019 annual meeting. Participants in Golden State Water Company's 401(k) plan may vote their 401(k) plan shares by Internet but must do so by the date set forth below.

Regardless of whether you attend the 2019 annual meeting in person, we encourage all our shareholders to vote using one of the methods described above.

Participants in Golden State Water Company's 401(k) plan may vote their 401(k) plan shares by mail, phone or Internet as described above. Votes submitted by telephone or using the Internet must be received by 11:59 p.m., Eastern Time, on May 17, 2019 in order for us to forward your instructions to the 401(k) plan trustee. The trustee will vote 401(k) plan shares as to which no directions are received in the same ratio as 401(k) plan shares with respect to which directions are received from other participants in the 401(k) plan, unless contrary to the Employee Retirement Income Security Act of 1974.

May I change my vote after I submit a proxy?

You may revoke your proxy at any time before the named proxies vote at the 2019 annual meeting by any of the following methods:

- filing with us a written notice of revocation of the proxy bearing a later date,
- attending the 2019 annual meeting and voting in person, or
- presenting a written notice of the revocation of the proxy at the 2019 annual meeting.

If you hold your shares through a broker, bank or other shareholder of record, then you must obtain a legal proxy to take any of these actions.

Please bear in mind that your execution of a proxy will not affect your right to attend the 2019 annual meeting or any adjournment thereof and vote in person; *however*, your attendance at the 2019 annual meeting will not, by itself, revoke your proxy, unless you take one of the actions listed above.

How may I cast my vote?

In the election of directors, you may vote your shares for the nominees in the following manner:

- **"FOR ALL"** of the nominees,
- **"WITHHOLD ALL"** (you may withhold your authority to vote for any individual nominee(s) by marking the "For All Except" box and writing the number(s) of the nominee(s) on the line provided), or
- **"FOR ALL EXCEPT**,**"** and write the number(s) of the nominee(s) on the line provided for any individual nominee(s) for whom you choose to withhold your authority to vote.

With respect to the advisory vote to approve the compensation of our named executive officers and the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm, you may vote your shares in the following manner:

- **"FOR**,**"**
- **"AGAINST**,**"** or
- **"ABSTAIN."**

Each share is entitled to one vote on each of these matters.

May I cumulate my votes for a director?

You may not cumulate your votes for a director (i.e., cast for any candidate a number of votes greater than the number of common shares that you hold on the record date) unless you or another shareholder:

- places the candidate's name in nomination prior to the voting, and
- prior to the voting, gives notice of an intention to cumulate votes at the 2019 annual meeting.

If you or any other shareholder gives notice prior to voting of an intention to cumulate votes, then all shareholders may cumulate their votes for candidates who have been nominated.

How does the board recommend that I vote at the 2019 annual meeting?

Our board recommends that you vote your shares:

- **"FOR ALL"** of the nominees for class II director,
- **"FOR"** approval of the compensation of the named executive officers, as disclosed pursuant to the compensation disclosure rules of the SEC, including the compensation discussion and analysis, compensation tables and any related material disclosed in this proxy statement, referred to herein as a "say-on-pay" advisory vote, and
- **"FOR"** the proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm.

How will the named proxies vote if I send in my proxy without voting instructions?

The named proxies will vote **"FOR ALL"** of the board's nominees to be elected as directors, **"FOR"** the approval of the compensation of the named executive officers, as disclosed pursuant to the compensation disclosure rules of the SEC, including the compensation discussion and analysis, compensation tables and any related materials disclosed in this proxy statement, and **"FOR"** the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm if you send in your proxy without voting instructions. The named proxies will also vote in favor of such other matters as are incident to the conduct of the 2019 annual meeting, unless otherwise instructed.

How will the named proxies vote if a nominee is unable to serve as director?

In the event any one or more of the nominees is withdrawn from nomination as a director or is unable to serve for any reason, a contingency not now anticipated, the named proxies may vote for a substitute nominee or nominees, unless otherwise instructed by a shareholder on his or her proxy.

What vote is required to approve each of the proposals?

<u>Proposal 1</u>

Candidates for the board of directors receiving the highest number of affirmative votes of the shares entitled to vote at the 2019 annual meeting in person or by proxy (up to the number of directors to be elected) will be elected. Votes cast against a candidate or votes withheld will have no legal effect. Brokers are *not* authorized to vote on this proposal unless you instruct otherwise.

<u>Proposal 2</u>

The compensation of the named executive officers, as disclosed pursuant to the compensation rules of the SEC, including the compensation discussion and analysis, compensation tables and any related material disclosed in this proxy statement will be approved upon an affirmative vote of a majority of our common shares represented in person or by proxy and voting, provided that the shares voting affirmatively also constitute at least a majority of the required quorum at the 2019 annual meeting. Abstentions on this proposal will not be considered as a vote cast for or against this proposal. Brokers are *not* authorized to vote on this proposal unless you instruct otherwise. This vote is advisory and non-binding on the company, the compensation committee and the board.

<u>Proposal 3</u>

The appointment of PricewaterhouseCoopers LLP, as our independent registered public accounting firm, will be ratified by the affirmative vote of those present in person or by proxy and voting, provided that the shares voting affirmatively also constitute at least a majority of the required quorum at the 2019 annual meeting. Abstentions on this proposal will not be considered as a vote cast for or against this proposal. Brokers are authorized to vote on this proposal unless you instruct otherwise.

What happens if cumulative voting for directors occurs?

If we conduct voting for directors by cumulative voting, then you may cast a number of votes equal to the number of directors authorized multiplied by the number of shares you have a right to vote. You may cast your votes for a single candidate or you may distribute your votes on the same principle among as many candidates in whatever proportion you desire.

The accompanying proxy will grant the named proxies discretionary authority to vote cumulatively if cumulative voting applies. Unless you instruct the named proxies otherwise, the named proxies will vote *equally* for each of the candidates for the office of director; provided, however, that if sufficient numbers of our shareholders exercise cumulative voting rights to elect one or more candidates, the named proxies will:

- determine the number of directors they may elect,
- select such number from among the named candidates,
- cumulate their votes, and
- cast their votes for each candidate among the number they are entitled to vote.

What is the quorum requirement for the 2019 annual meeting?

A quorum is present if shareholders holding a majority of shares entitled to vote on the record date are present at the 2019 annual meeting, either in person or by proxy. We will count shares represented by proxies that reflect abstentions and broker non-votes as present and entitled to vote for purposes of determining the presence of a quorum. The term “broker non-vote” refers to shares held by brokers or nominees who have not received instructions on how to vote from the beneficial owners or persons entitled to vote if the broker or nominee indicates on the proxy that the broker or nominee does not have discretionary power to vote on the matter.

Who bears the costs of proxy distribution and solicitation?

We will bear the entire cost of preparing, assembling, printing and mailing proxy statements and the costs of any additional materials, which the board may furnish to you. We will solicit proxies by U.S. mail in the case of beneficial owners that own 1,000 or more shares or, in the case of all other shareholders, brokers, banks and other nominees, by mailing a notice containing instructions on how to access our proxy materials and vote. We have engaged the services of Morrow Sodali LLC, 470 West Avenue, Stamford, Connecticut 06902 for $8,000 to assist us in soliciting proxies. We may also solicit proxies by telephone, or personally, by directors, officers and regular employees of the company who will receive no extra compensation for performing these services.

What does it mean if I receive more than one proxy or voting instruction card?

It means your shares are either registered differently or appear in more than one account. Please provide us with voting instructions for *all* proxy and voting instruction cards that you receive.

Who will serve as inspector of election?

The board of directors has appointed Broadridge Financial Solutions, Inc. to act as the inspector of election. The inspector of election will count all votes cast, whether in person or by proxy.

How is an annual meeting adjourned?

Shareholders may adjourn an annual meeting by the affirmative vote of a majority of the shares represented at the annual meeting, in person or by proxy, even if a quorum is not present. If a proposal is made to adjourn the 2019 annual meeting to enable management to continue to solicit proxies in favor of a proposal, the proxies will be voted in favor of adjournment, unless otherwise instructed.

In the absence of a quorum at the 2019 annual meeting, no business may be transacted at the 2019 annual meeting other than an adjournment. We may conduct any business at an adjourned meeting, which we could have conducted at the original meeting.

We are not required to give you notice of an adjournment of an annual meeting if we announce the time and place of the adjournment at the annual meeting at which the adjournment takes place. We must, however, give you notice of the adjourned meeting if the adjournment is for more than 45 days or, if after the adjournment, we set a new record date for the adjourned meeting.

BOARD STRUCTURE AND COMMITTEES

How is the board of directors structured?

The board of directors currently consists of nine directors, with an independent non-management director serving as its chair. The board is divided into three classes (class I, class II and class III). Shareholders elect directors in each class to serve for a three-year staggered term expiring in successive years or until shareholders duly elect their successors. The term of the class III directors will expire at the 2020 annual meeting. The term of the class I directors will expire at the 2021 annual meeting. The term of the directors elected to class II at this annual meeting will expire at the 2022 annual meeting.

Mr. Lloyd E. Ross, the chair of the board, is a non-voting ex-officio member of all committees of the board. Mr. Ross, as chair, also serves as the presiding director for executive sessions of the board and acts as lead director of the board. Ms. Holloway was appointed as vice chair of the board effective

August 1, 2018 in order to familiarize herself with the duties of the chair and issues coming before the board and otherwise act in lieu of the chair at such times as may be requested by the chair or at such other times as may be desirable.

The board holds executive sessions of the board following regularly scheduled meetings and on an as-needed basis. Some of these sessions are non-management executive sessions. Currently, Mr. Robert J. Sprowls, who is also president and chief executive officer of the company, is the only employee director that participates in executive sessions of the board. He does not participate in non-management executive sessions. The board held four executive sessions of the board in 2018, one of which included a non-management executive session.

The board of directors has determined that Mr. Ross and seven of the other members of the board are independent directors of the company. The board believes that this leadership structure, in which the chair is an independent director acting as the lead director, ensures a greater role for the other independent directors in the oversight of the company and active participation of the independent directors in setting agendas and establishing priorities and procedures for the board. The board further believes that this leadership structure is preferred by a significant number of our shareholders. The board has used this leadership structure since the formation of the company as a holding company in 1998.

What is the board's role in risk oversight?

The board does not manage risk. Rather the board oversees enterprise risk management, or ERM, performed under the direction of the chief executive officer and chief financial officer. The board satisfies this responsibility by obtaining information from each committee chair regarding the committee's risk oversight activities and from regular reports directly from officers and other key management personnel responsible for risk identification, risk management and risk mitigation strategies. The reporting processes are designed to provide visibility to the board about the identification, assessment and management of critical risks and management's risk mitigation strategies. Diana M. Bontá was appointed as a liaison between the board and management with respect to providing additional oversight of the company's ERM programs. Dr. Bontá reports to the full board regarding management's implementation of the company's ERM program and other matters relevant to the risk oversight responsibilities of the board.

The board has not established a risk oversight committee. Instead, each committee oversees risks within its area of responsibility.

The audit and finance committee considers financial risks and exposures, particularly financial reporting, tax, accounting, disclosure and internal control over financial reporting, financial policies, investment guidelines, credit and liquidity matters and the company's retirement plans. The audit and finance committee receives regular reports from the internal auditor of the company to assist it in overseeing financial risks. The audit and finance committee is not responsible for the oversight of non-financial risks. The oversight of non-financial risks is performed by the full board and other committees.

The nominating and governance committee considers risks and exposures relating to corporate governance and succession planning for the board and the chief executive officer. The nominating and governance committee is also responsible for making recommendations regarding the delegation of risk oversight responsibilities to committees of the board and the policies and procedures for coordinating the risk oversight responsibilities of the board, the ERM liaison and each of the committees and the board.

The compensation committee considers risks associated with executive and employee compensation programs. The ASUS committee oversees the risks and exposures associated with the company's contracted services operations at American States Utility Services, Inc. and its subsidiaries, or ASUS.

What is the board's role in succession planning?

The board, with the assistance of the compensation and nominating and governance committees, oversees succession planning and leadership development of the chief executive officer and other officers, directors and managers of the company. In addition to reviewing the company's succession planning processes, the compensation committee reviews the development plans that are being utilized to strengthen the skills and qualifications of candidates for leadership positions in the company. The compensation committee also recommends to the board actions that the committee believes should be taken in light of the operations needs of the company and its talent pool to enable the company to attract, motivate and retain the right people in the right positions now and into the future or otherwise enable the company to meet its talent needs in the event of a sudden loss of the chief executive officer or other officers, directors or managers. The committee also periodically reviews a report on the diversity demographics of the company.

The nominating and governance committee is responsible for matters related to board succession planning. You may find additional information on characteristics that the nominating committee considers in nominating a candidate for the board under the heading "Nominating and Governance Committee-How does the nominating and governance committee assess candidates to fill vacancies on the board?"

What are the procedures for changing the number of directors?

Under our bylaws, the board of directors may increase the authorized number of directors up to eleven without obtaining shareholder approval so long as we list our common shares on the New York Stock Exchange. We currently have nine directors on our board. The board of directors may also decrease the number of authorized directors to no less than six without obtaining shareholder approval. If the number of authorized directors is decreased to six, then the board will cease to be classified; provided, that the decrease in the number of directors cannot shorten the term of any incumbent director.

Unless otherwise approved by our shareholders, the board of directors will cease to be classified if our common shares are not listed on the New York Stock Exchange.

How are vacancies filled on the board of directors?

A majority of the remaining directors may fill vacancies on the board, except those existing because of a removal of a director, though less than a quorum. If the board consists of only one director, the sole remaining director may fill all vacancies on the board. Each director so elected will hold office until the end of the term of the director who has been removed, or until the director's successor has been duly elected and qualified. Our shareholders also have the right to elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors.

Under what circumstances may a director be removed from the board?

Under California law, a member of the board of directors may be removed:

- by the board of directors as the result of a felony conviction or court declaration of unsound mind,
- by the shareholders without cause, or
- by court order for fraudulent or dishonest acts or gross abuse of authority or discretion.

Generally, shareholders may not remove a director if the votes cast against removal are sufficient to elect the director if voted cumulatively at an election of directors held at the time of removal. In addition, no director may be removed by shareholders by written consent unless all shareholders vote for removal of the director.

What committees does the board of directors have?

The board has three standing committees:

- an audit and finance committee,
- a nominating and governance committee, and
- a compensation committee.

Each committee operates under a written charter, which identifies the purpose of the committee and its primary functions and responsibilities. Copies of these committee charters are available on our website at www.aswater.com.

The board has also established another committee, known as the ASUS committee, to oversee our contracted services business. The ASUS committee operates under a written charter.

How often did the board and each of the committees meet during 2018?

During 2018:

- directors met, as a board, five times,
- the audit and finance committee met six times,
- the nominating and governance committee met four times,
- the compensation committee met seven times, and
- the ASUS committee met four times.

No board member in 2018 attended less than 75% of the meetings of the board. No committee member in 2018 attended less than 75% of the committee meetings of any committee in which he or she was a member.

NOMINATING AND GOVERNANCE COMMITTEE

What are the functions of the nominating and governance committee?

The nominating and governance committee assesses qualifications of candidates to fill vacancies on the board and makes recommendations to the board regarding candidates to fill these vacancies. The nominating and governance committee also

- recommends to the board changes in the company's corporate governance policies and procedures and CEO and board succession;
- recommends to the board a director education program for the year;
- reviews and oversees management's preparation of our corporate social responsibility report which is posted on the company's website at aswater.com;
- reviews shareholder proposals received by the company and makes recommendations to the board regarding appropriate actions to take in response to any such proposals;
- periodically reviews needs of the board and each of the committees of the board and whether there is a need for refreshment of the board; and
- reviews its charter and assesses its own performance annually.

How does the nominating and governance committee assess candidates to fill vacancies on the board?

The nominating and governance committee assesses nominees for directors based on a number of qualifications, including:

- a reputation for integrity, honesty and adherence to high ethical standards;
- holding or having held a generally recognized position of leadership;
- business acumen, business or governmental experience and an ability to exercise sound business judgment in matters that relate to our current and long-term objectives;
- an interest and ability to understand the sometimes conflicting interests of our various constituencies, including shareholders, employees, customers, regulators, creditors and the general public;
- an interest and ability to act in the interests of all shareholders;
- an ability to work constructively with groups with diverse perspectives and to tolerate opposing viewpoints;
- a commitment to service on the board, including commitment demonstrated by prior board service; and
- a willingness to challenge and stimulate management.

Each director, other than the chief executive officer of the company, is also expected to satisfy the independence requirements of the board.

In addition to the criteria set forth above, the nominating and governance committee considers how the skills and attributes of each individual candidate or incumbent director work together to create a board that is collegial, engaged and effective in performing its duties. In order to achieve this objective, the committee believes that the background and qualifications of the directors, considered as a group, should provide a significant mix and diversity of professional and personal experience, knowledge and skills that will allow the board to fulfill its responsibilities. The committee construes the concept of diversity broadly so as to include a variety of opinions, perspectives, personal experiences and backgrounds and other differentiating characteristics, including gender and ethnicity.

The process used by the committee in assessing candidates for director is a subjective one. The committee has considered knowledge, skills and experience in the following areas to be helpful to the board in selecting nominees for director:

- finance
- accounting
- engineering
- real estate
- construction
- government contracting
- public utility and/or other regulated industry
- corporate governance
- customer and community service

For information on the specific backgrounds and qualifications of our current directors, see "Proposal 1: Election of Directors."

As part of its annual self-assessment process, the board also evaluates itself and/or directors on a variety of criteria, including:

- independence
- commitment, time and energy devoted to service on the board
- overall contributions to the board
- attendance at, and preparation for, board and committee meetings
- effectiveness as chair of the board
- collegiality
- understanding the role of the board and the committees on which he or she serves
- judgment and appropriateness of comments
- skill set relative to board needs
- understanding of the company's business, industry and risks
- opportunity to engage and stimulate management

The maximum age at which the board may nominate a director for election, absent extraordinary circumstances, is 75. If Ms. Hopkins is elected as a director, only four members of our board will be over 70 and only three will have served on the board for more than 10 years.

The nominating and governance committee generally considers candidates recommended by board members, professional search firms, shareholders and other persons, in addition to board members whose terms may be expiring. The way in which the nominating and governance committee evaluates a new person as a nominee does not differ based on who makes the nomination.

Mr. Ross is not eligible to be nominated to serve on the board of directors in 2019 as he is over the age of 75. In May 2018, the committee discussed engaging an executive search firm to identify and vet candidates to fill Mr. Ross' seat on the board. The committee also authorized preparation of a matrix of desired skills and experience to guide the search. Mr. McNulty thereafter recommended Ms. Hopkins to be considered as a candidate for the board and as a member of the ASUS committee. Mr. McNulty will be retiring from the board at the annual meeting in 2020 as he will be over the age of 75. As a result, the board will no longer have a person with private enterprise government procurement and project management experience serving on the board after Mr. McNulty retires, unless a person with this type of experience is elected to the board. Nor will there be a person with construction management experience after this annual meeting when Mr. Ross and Mr. McNulty retire, unless a person with this type of experience is elected to the board.

Management, with input from Ms. Holloway and Mr. McNulty, prepared a matrix of desired skills as requested by the committee with an emphasis on persons with either military/government or private enterprise contracting experience. Mr. Sprowls and Ms. Holloway, the chair of the committee, interviewed Ms. Hopkins in September 2018. In October, after discussion of the skills matrix and background information on Ms. Hopkins obtained by management, the committee determined that it was desirable to recommend Ms. Hopkins as the nominee rather than to engage a professional search firm to conduct a further search.

What is the role of the board in the nomination process?

After the board receives the nominating and governance committee's recommendations on nominees, the board then nominates director candidates the board deems most qualified for election at an annual meeting, taking into account the background, qualifications and age of each of the other members of the board.

If a vacancy or a newly created board seat occurs between annual meetings, the board is responsible for filling the vacancy or newly created board seat in accordance with our bylaws as described above under the heading, "How are vacancies filled on the board of directors?"

Who are the members of the nominating and governance committee?

Ms. Holloway is the chair of the nominating and governance committee. Mr. Anderson and Dr. Bontá are members of this committee. Mr. Ross has served as a non-voting ex-officio member of this committee.

How may a shareholder nominate a person to serve on the board?

You may submit the name of a person for election as a director either by submitting a recommendation to the nominating and governance committee or by directly submitting a name for consideration at a shareholder meeting. In either event, you must submit the name of the nominee in writing to our corporate secretary at our corporate headquarters between February 19, 2020 and March 6, 2020, in order for your nominee to be considered for election as a director at the 2020 annual meeting. If we change the 2020 annual meeting date by more than 30 days from the date of our 2019 annual meeting or the date a special meeting is held, you will have another opportunity to submit nominations. In this case, the corporate secretary must receive your nomination at our corporate headquarters no later than the close of business on the tenth day following the earlier of the date on which we mail you notice of the meeting or we publicly disclose the meeting date.

Your notice to the corporate secretary must contain:

- all information that the SEC requires us to disclose in our proxy statement about the nominee,
- a consent by the nominee to be named in the proxy statement and to serve as a director if elected,
- the name and address of the record and beneficial owner, if any, of the shares making the nomination, and
- the number of shares held.

If you submit a name for consideration by the nominating and governance committee, we may also ask you to provide other information reasonably related to the recommended individual's qualifications as a nominee. The person recommended should be able to, upon request and with reasonable advance notice, meet with one or more members of the nominating and governance committee and/or the board of directors to inquire into the nominee's qualifications and background and otherwise to be interviewed for purposes of the nomination.

If you plan to submit a name directly for nomination as a director at a shareholder meeting, you must comply with all requirements of the Securities Exchange Act of 1934 in connection with soliciting shareholders to vote for your nominee.

We have made no material changes in 2019 to these procedures for the nomination of directors.

Have we paid fees to any third party to assist us in evaluating or identifying potential nominees to the board?

We have not paid any fees for assistance in identifying potential candidates to fill a vacancy on the board since our previous annual meeting.

Did we receive any nominations for director from certain large beneficial owners of our common shares?

Since our previous annual meeting, we have not received any nominations from a shareholder or a group of shareholders owning more than 5% of our outstanding common shares.

AUDIT AND FINANCE COMMITTEE

Who are the members of the audit and finance committee?

Ms. Anderson is the chair of the audit and finance committee. Mr. Fielder and Ms. Wilkins are members of this committee. Mr. Ross has served as a non-voting ex-officio member of this committee.

Does the audit and finance committee have any audit committee financial experts?

The board of directors determined:

- all members of the audit and finance committee are financially literate,
- Ms. Anderson and Ms. Wilkins are "audit committee financial experts", and
- all members of the audit and finance committee are independent under the standards set forth in Rule 10A-3 of the Securities Exchange Act of 1934 and the rules of the New York Stock Exchange.

Audit and Finance Committee Report

Functions of the Audit and Finance Committee

The audit and finance committee:

- reviews significant public documents containing financial statements provided to shareholders and regulatory agencies and reviews all periodic reports filed with the SEC;
- discusses with the company's independent registered public accounting firm its plans, if any, to use the work of internal auditors;
- reviews the internal audit function, including its competence and objectivity and proposed audit plans for the coming year, including intended levels of support for and coordination with the external audit process;
- discusses with the internal auditors and the company's independent registered public accounting firm, the financial statements and the results of the audit;
- discusses significant management judgments and/or accounting estimates used in the preparation of the financial statements;
- discusses with the company's independent registered public accounting firm any significant matters regarding internal controls over financial reporting that have come to its attention during the conduct of the audit;

- reviews the qualifications of our independent registered public accounting firm and appoints (and has sole authority to terminate) our independent registered public accounting firm;
- reviews and approves fees charged by our independent registered public accounting firm;
- reviews and evaluates the effectiveness of our process for assessing significant financial risks and the steps management takes to minimize these financial risks;
- reviews and makes recommendations to the board of directors regarding related party transactions;
- reviews accounting and financial human resources;
- establishes procedures for the receipt, retention and treatment of complaints that the company receives regarding accounting, internal controls or auditing matters and for the confidential anonymous submission by our employees of concerns regarding questionable accounting or auditing matters or related party transactions;
- reviews the committee's charter and its own performance annually; and
- oversees the company's compliance with legal and regulatory requirements that we believe could have a significant impact on its financial statements.

Management has the primary responsibility for our financial statements, internal controls, disclosure controls and the financial reporting process. PricewaterhouseCoopers LLP, our registered public accounting firm, is responsible for performing an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards and issuing a report based on its findings. The audit and finance committee is responsible for monitoring and overseeing our financial reporting process. PricewaterhouseCoopers LLP reports directly to the audit and finance committee and, if requested, the board of directors.

Discussions with Independent Auditors

PricewaterhouseCoopers LLP provided to the audit and finance committee the written disclosures and letter required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit and finance committee concerning independence, and the audit and finance committee discussed with PricewaterhouseCoopers LLP the independent accountant's independence. The audit and finance committee also reviewed and discussed our audited consolidated financial statements with PricewaterhouseCoopers LLP and matters related to the audit required by the Public Company Accounting Oversight Board, including the firm's evaluation of our internal control over financial reporting and the overall quality of our financial reporting.

Discussions with Management

The committee reviewed and discussed with management the company's audited consolidated financial statements for 2018. Management has represented to the audit and finance committee that our internal controls over financial reporting have no material weaknesses and that management prepared the company's consolidated financial statements in accordance with generally accepted accounting principles.

Recommendation for Inclusion in Form 10-K

Based upon the audit and finance committee's discussions with management and PricewaterhouseCoopers LLP, the audit and finance committee's review of the representations of management and the reports and presentations of PricewaterhouseCoopers LLP to the audit and finance committee, the audit and finance committee recommended that the board of directors include the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC.

This report is submitted by:

Sarah J. Anderson, Chair
John R. Fielder, Member
Janice F. Wilkins, Member

COMPENSATION COMMITTEE

What are the functions of the compensation committee?

Our compensation committee, which consists entirely of independent directors:

- reviews the performance of our executive officers in January of each year and at the time of the hiring or promotion of an executive officer;
- selects a compensation consultant to assist the committee in evaluating the amount or form of executive and director compensation;
- recommends the salary for each executive officer, including the salary of Mr. Sprowls, the president and chief executive officer of the company, for ratification by the independent members of the board;
- makes stock awards for each executive officer and manager pursuant to our equity compensation plans;
- sets performance standards and makes awards under our equity and non-equity compensation plans;
- approves objective and discretionary cash bonuses for executive officers;
- approves the amount of stock awards following the end of the performance period based upon the satisfaction of objective performance criteria;
- reviews and makes recommendations to the board regarding long-term compensation strategies and changes in the executive compensation program and the terms of our employee benefit and pension plans;
- reviews trends in executive compensation and considers changes in accounting principles and tax laws that impact executive compensation;
- makes recommendations to the board regarding the terms of employment and severance arrangements applicable to specific executive officers;
- reviews and makes recommendations to the board regarding the compensation of directors;
- administers the 2008 Stock Incentive Plan, or 2008 plan, and the 2016 Stock Incentive Plan, or 2016 plan, for employees, and the 2003 Non-Employee Directors Stock Plan, or 2003 directors plan, and the 2013 Non-Employee Directors Stock Plan, or 2013 directors plan, for non-employee directors; and
- reviews and discusses with management the Compensation Discussion & Analysis section of this proxy statement.

The compensation committee has the authority, in its discretion, to hire, retain, terminate and oversee the work of compensation consultants, independent counsel and other advisers to assist the committee in evaluating the amount or form of executive or director compensation. Before retaining any compensation consultant, independent counsel or other such advisers, the compensation committee is required to consider those factors specified in the Dodd-Frank Act and the rules and regulations promulgated by the SEC thereunder and such other factors that the compensation committee deems appropriate that may affect the independence of such consultants, counsel or advisers. Unless otherwise provided by the board, the compensation committee does not have the authority to delegate its authority to a subcommittee.

What fees have we paid for services provided by our compensation consultant and its affiliates?

The compensation committee engaged Pearl Meyer, to prepare a survey of executive and director compensation trends and pay practices of other companies and to make recommendations to the compensation committee regarding the amount and types of compensation to be paid to our executive officers in 2018 and to our directors (hereafter referred to as the engagement). The aggregate amount of fees paid to Pearl Meyer in 2018 in connection with the engagement was $93,504. The compensation committee had the sole authority to appoint Pearl Meyer, oversee the compensation services provided by Pearl Meyer and to approve the compensation paid to Pearl Meyer for these services.

Is our compensation consultant independent?

The compensation committee believes that the consulting advice that it has received from Pearl Meyer was objective. The committee has assessed the independence of Pearl Meyer pursuant to SEC rules and concluded that no conflicts of interest exist between the company and Pearl Meyer (or any individuals working on the company's account on behalf of Pearl Meyer). In reaching such determination, the committee considered the following factors, all of which were attested to or affirmed by Pearl Meyer:

- During 2018, Pearl Meyer provided no services to and received no fees from the company other than in connection with the engagement.
- The amount of fees paid or payable by the company to Pearl Meyer for services provided during the 2018 calendar year represented less than 1% of Pearl Meyer's total revenue for the same period.
- Pearl Meyer has adopted and implemented a policy to prevent conflicts of interest or other independence issues.
- There are no business or personal relationships between any member of the Pearl Meyer team assigned to the engagement and any member of the compensation committee, other than in respect of the engagement, or any work performed by Pearl Meyer for any other company, board of directors or compensation committee for whom such committee member also serves as an independent director.
- There are no business or personal relationships between any member of the Pearl Meyers team assigned to the engagement or Pearl Meyer itself and any executive officer of the company other than in respect of the engagement.
- No individual on the Pearl Meyer team assigned to the engagement maintains any direct individual position in the stock of the company.

Compensation Committee Interlocks and Insider Participation

Mr. Anderson is the chair of the compensation committee. Ms. Holloway, Dr. Bontá, and Mr. McNulty are members of this committee. Mr. Ross has been a non-voting ex-officio member of this committee.

The board has determined that no member of this committee has a material relationship with the company, either directly or indirectly as a partner, shareholder or officer of an organization that has a material relationship with us or any other relationship with the company that the board of directors determined would affect the independence of that member.

No member of this committee is a current or former officer or employee of the company or any of its subsidiaries. None of the executive officers of the company is (or has been during the past three years) a member of the board of directors or the compensation committee of any company on which any of our directors serves as an executive officer, director or member of the compensation committee. No compensation committee member or any entity in which such member has a 5% or more interest or by whom such member is employed has received any consulting, advisory or other compensatory fees paid by the company or any of its subsidiaries, other than fees received by such member for serving on our board of directors, serving on or attending meetings of committees of our board, acting as a liaison between the board and/or its committees and management on matters specified by the board or otherwise working on matters specified by the board. We are not aware of any facts or circumstances that would make any member of the compensation committee an affiliate of the company.

How does the board and each of its committees assess performance?

The nominating and governance committee uses an outside law firm to assist it in conducting an annual performance and needs assessment of the board. Each board member is asked to submit both a subjective and objective assessment of the board as well as suggestions on how to improve board functioning and whether there are any strategic aspects of the company's business that might merit additional board attention. The results of this assessment are summarized by outside counsel and then distributed to the nominating and governance committee and the board for discussion. Each of the committees also discusses its performance annually.

GOVERNANCE OF THE COMPANY

Is each of our board and committee members and nominee independent?

Based on information solicited from each director and nominee, the board has determined that none of our directors or Ms. Hopkins, other than Mr. Sprowls, has a material relationship with us, either directly or indirectly as a partner, shareholder or officer of an organization that has a relationship with us and is otherwise independent under the corporate governance standards of the New York Stock Exchange. We have not adopted any other categorical standards for determining whether a board member is independent.

The board determined that Mr. Anderson, Ms. Anderson, Dr. Bontá, Mr. Fielder, Ms. Holloway, Mr. McNulty, Ms. Wilkins and Mr. Ross are independent directors. The board also determined that Ms. Hopkins satisfies the independence standards of the New York Stock Exchange. In determining that these directors and Ms. Hopkins are independent, the board considered the following facts:

- none of these directors or Ms. Hopkins or any of his or her immediate family members is or has been an executive officer or employee of the company or any of its subsidiaries at any time;

- none of our directors or Ms. Hopkins or any of his or her immediate family members or any "related person" had any indebtedness to us, any business relationship with us or any transaction or proposed transaction with us in excess of $120,000 since January 2018, other than compensation for serving as a director, serving as a member or attending meetings of a committee of the board, serving as a liaison between the board and management or otherwise working on matters specified by the board;
- none of these directors or Ms. Hopkins or any of his or her immediate family members received during any twelve-month period within the last three years more than $120,000 in direct compensation from us, other than compensation for serving as a director, serving as a member or attending meetings of a committee of the board, serving as a liaison between the board and management or otherwise working on matters specified by the board;
- none of these directors or Ms. Hopkins has accepted, either directly or indirectly, any consulting, advisory or other compensatory fee from us, other than compensation for serving as a director, serving as a member or attending meetings of a committee of the board, serving as a liaison between the board and management or otherwise working on matters specified by the board;
- no director or Ms. Hopkins is, or has been, an employee of any entity, including a charitable organization, that has made payments to, or received payments or charitable contributions from us at any time during the past three years for property or services in an amount which, in any single fiscal year, exceeded the greater of $1 million or 2% of the other entity's consolidated gross revenues reported for that fiscal year;
- no immediate family member of any director or Ms. Hopkins is an executive officer of any entity, including a charitable organization, that has made payments to, or received payments or charitable contributions from us at any time during the past three years for property or services in an amount which, in any single fiscal year, exceeded the greater of $1 million or 2% of the other entity's consolidated gross revenues reported for that fiscal year;
- no director or Ms. Hopkins or any of his or her immediate family members is a current partner or employee of a firm that is our internal or external auditor;
- no director or Ms. Hopkins or any of his or her immediate family members was, within the last three years, a partner or employee of our internal or external auditor and personally worked on our audit during that time;
- none of the executive officers of the company is, or has been during the past three years, a member of the board of directors or the compensation committee of any company on which any of our directors or Ms. Hopkins serve as an executive officer, director or member of the compensation committee; and
- none of our directors or Ms. Hopkins is prohibited from serving on our board of directors by the interlocking director rules of the Federal Energy Regulatory Commission.

We did not identify any other businesses or other relationships between us and any non-employee director or Ms. Hopkins that would affect the independence of these directors or Ms. Hopkins nor did the board consider any other relationships or transactions in determining director independence. The board has also affirmatively determined that all members of the audit and finance committee, nominating and governance committee and compensation committee, including Mr. Ross, are independent directors under the corporate governance listing standards of the New York Stock Exchange and that all members of the audit and finance committee are independent under the standards set forth in Rule 10A-3 under the Securities Exchange Act of 1934.

No member of the audit and finance committee served on more than three public company boards during 2018.

Do we have any relationships with any executive officers?

No executive officer or Ms. Hopkins or any of his or her immediate family members had any indebtedness to us, any business relationships with us or any transactions or proposed transactions with us since January 2018.

What procedures do we use for reviewing and approving transactions between us and our directors, nominee and executive officers?

We have adopted a code of conduct and guidelines on significant governance issues, which include policies and procedures regarding relationships between us and our directors and executive officers. Information about how to obtain a copy of the code of conduct and guidelines on significant governance issues is set forth in this proxy statement under the heading, "Obtaining Additional Information from Us."

Under the company's guidelines on significant governance issues, directors are expected to make business opportunities relating to the company's business available to the company before pursuing the opportunity for the director's own or another's account. Neither the board nor the audit and finance committee has approved any other guidelines that would permit a director or executive officer to engage in any transactions or actions that would create a conflict of interest. All conflict of interest transactions must be approved by disinterested members of the board and the audit and finance committee in accordance with California law and the rules of the New York Stock Exchange.

Our code of conduct prohibits any director or executive officer from engaging in any transactions or other actions, which create a conflict of interest, except under guidelines approved by the board or the audit and finance committee. A conflict of interest arises if a director or executive officer takes an action or has interests that may make it difficult for the director or executive officer to act objectively or effectively and include:

- causing the company or any of its subsidiaries to employ or retain a family member as an employee or consultant,
- causing the company or any of its subsidiaries to do business with any businesses in which the director, executive officer or any family member stands to gain personally,
- making investments which may impair the ability of the director or executive to make decisions on behalf of the company,
- taking advantage of business opportunities relating to the company's business or that are discovered through the use of corporate property, information or position for personal gain, without first offering the opportunity to the company, or
- competing with the company.

Our guidelines on significant governance issues also require each director to disclose to the board any financial or personal interest in any transaction that comes before the board for approval. Each director and executive officer is also required to disclose annually any relationships with the company and to declare that all such relationships during the prior year have been disclosed. We also asked Ms. Hopkins to disclose any such relationships that she had with us during 2018. Our board did not consider any transactions in which any member of the board or executive officer or Ms. Hopkins had an interest in 2018 or any related party transactions subject to disclosure under Auditing Standard No. 2410.

We do not provide loans, loan guarantees or otherwise extend credit, directly or indirectly, to any of our executive officers or directors or to Ms. Hopkins.

Have any of our directors, executive officers, nominee or affiliates been involved in certain legal proceedings during the past ten years?

None of our current executive officers, directors, Ms. Hopkins or any affiliate or owner of more than 5% of our common shares has been a party adverse to us in any material legal proceeding or been involved in any legal proceedings that the SEC has identified as being material to the evaluation of the ability or integrity of a director or executive officer.

What is our policy regarding attendance by board members at our annual meetings?

We adopted a policy that each director should make every reasonable effort to attend each annual meeting of shareholders. All directors were present at our 2018 annual meeting.

What is the process for shareholders and other interested persons to send communications to our board?

You or any interested person may, at any time, communicate in writing with the chair of the board who presides at regularly scheduled board meetings and executive sessions, any particular director or non-management directors as a group, by writing to our corporate secretary at American States Water Company, 630 East Foothill Boulevard, San Dimas, California 91773. We will provide copies of written communications received at this address to the relevant director or the non-management directors as a group unless the corporate secretary, in her reasonable judgment, considers the communications to be improper for submission to the intended recipient(s). Examples of communications considered improper for submission include customer complaints, solicitations, ordinary work employee grievances, communications that do not relate directly or indirectly to our business and communications that relate to improper or irrelevant topics.

What are the requirements for submission of shareholder proposals?

If you want us to include your shareholder proposal in our proxy materials for the 2020 annual meeting, you must submit the proposal to our corporate secretary at American States Water Company, 630 East Foothill Boulevard, San Dimas, California 91773. Our corporate secretary must receive your proposal no later than December 5, 2019. Your proposal must also satisfy the other requirements for shareholder proposals set forth in Rule 14a-8 under the Securities Exchange Act of 1934.

A shareholder making a shareholder proposal should state as clearly as possible the course of action that the shareholder believes we should follow. If we place a shareholder proposal on the proxy card, we will provide, in the form of proxy, the means for other shareholders to specify, by checking a box, as to whether they want to approve, disapprove or abstain from voting on the shareholder proposal.

If you want your shareholder proposal to be considered at the 2020 annual meeting and you have not met the deadline for us to include your shareholder proposal in our proxy materials, you may nevertheless submit your proposal for consideration at the 2020 annual meeting if you comply with the following procedures.

You must deliver or mail your notice to our corporate secretary at American States Water Company, 630 East Foothill Boulevard, San Dimas, California 91773 stating that you intend to submit a shareholder proposal at our 2020 annual meeting. Our corporate secretary must receive your notice between February 19, 2020 and March 6, 2020, unless we change our 2020 annual meeting date by more than 30 days from the date of our 2019 annual meeting, in which case, our corporate secretary must receive your notice no later than the close of business on the tenth day following the day on which we mail you notice of the meeting or the date on which we publicly disclose the date of the meeting.

Your notice to our corporate secretary must include for each matter you propose to bring before the 2020 annual meeting:

- a brief description of the matter you intend to bring before the 2020 annual meeting;
- reasons for bringing such matter before the 2020 annual meeting;
- the name and address of the record and beneficial owner, if any, of the shares making the proposal;
- the number of our common shares you own; and
- any material interest you have in the matter.

STOCK OWNERSHIP

Are there any large owners of our common shares?

The following table identifies shareholders who owned more than 5% of our outstanding common shares on March 28, 2019.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class[(4)]
Common Shares	BlackRock Inc. 55 East 52nd Street New York, NY 10055	5,572,291[(1)]	15.1%
	The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	4,242,262[(2)]	11.5%
	State Street Corporation State Street Financial Center One Lincoln Street Boston, MA 02111	2,638,233[(3)]	7.2%

(1) Based on Schedule 13G filed with the SEC on January 24, 2019, BlackRock Inc. has sole voting power over 5,491,276 of our common shares and sole dispositive power over 5,572,291 of our common shares.

(2) Based on Schedule 13G filed with the SEC on February 11, 2019, The Vanguard Group, Inc. has sole voting power over 69,682 of our common shares, shared voting power over 21,877 shares, sole dispositive power over 4,161,137 of our common shares and shared dispositive power over 81,125 of our common shares.

(3) Based on Schedule 13G filed with the SEC on February 13, 2019, The State Street Corporation has shared voting power over 2,510,377 of our common shares and shared dispositive power over 2,638,233 of our common shares.

(4) Percent of class is calculated based upon the number of our common shares outstanding on March 28, 2019, plus any shares which a person has the right to acquire on or prior to May 27, 2019.

How much stock do directors, nominee and executive officers own?

We are providing you information in the table below regarding the number of our common shares beneficially owned by our directors, Ms. Hopkins and executive officers as of March 28, 2019, including common shares which each director and executive officer has a right to acquire on or prior to May 27, 2019.

SECURITY OWNERSHIP OF DIRECTORS, NOMINEE AND EXECUTIVE OFFICERS

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
James L. Anderson	14,758	*
Sarah J. Anderson	13,038	*
Diana M. Bontá	11,020	*
John R. Fielder	11,485	*
Anne M. Holloway	20,577	*
Mary Ann Hopkins	-	*
James F. McNulty	9,497	*
Lloyd E. Ross	30,520	*
Janice F. Wilkins	16,882	*
Robert J. Sprowls	127,381(1)	*
Eva G. Tang	41,942(2)	*
Denise L. Kruger	22,647	*
James C. Cotton	9,145	*
Patrick R. Scanlon	41,708	*
Directors and Executive Officers as a Group	458,171(3)	1.24%(4)

**Less than 1%*

(1) Mr. Sprowls has the right to acquire 13,038 of our common shares on or prior to May 27, 2019 through the exercise of stock options granted pursuant to the 2008 plan.

(2) Ms. Tang has the right to acquire 2,616 of our common shares on or prior to May 27, 2019 through the exercise of stock options granted pursuant to the 2008 plan.

(3) Our executive officers as a group have the right to acquire 17,586 of our common shares on or prior to May 27, 2019 through the exercise of stock options or the payout of restricted stock units that have vested. None of our directors or Ms. Hopkins have any rights to acquire any of our common shares through the exercise of stock options or the payout of restricted stock units on or prior to May 27, 2019. We have not included in this table common shares relating to dividend equivalents that may be received by our directors and executive officers with respect to dividends declared by the board after March 28, 2019 or restricted stock units which the directors and Ms. Hopkins will have a right to acquire on the date of the 2019 annual meeting pursuant to the 2013 directors plan.

(4) Percent of class is calculated based upon the number of our common shares outstanding on March 28, 2019, plus any shares a person has the right to acquire on or prior to May 27, 2019.

Section 16(a) Beneficial Ownership Reporting Compliance

We have adopted procedures to assist our directors and executive officers in complying with Section 16(a) of the Securities Exchange Act of 1934, including assisting directors and executive officers with preparing and filing statements on Form 3, Form 4 and, if applicable, Form 5. We believe, on the basis of our review of the statements filed by directors and executive officers in 2018 that the only form, which was filed late was the Form 4 inadvertently filed 8 days late by Mr. Cotton with respect to the sale of common shares on May 15, 2018.

PROPOSAL 1: ELECTION OF DIRECTORS

We have provided information below about each of our directors and nominee, including his or her ages, years of service as a director of the company, educational background, business experience, service on other boards and community service activities. The process used by the board in nominating directors is a subjective one and is based on the recommendations of the nominating and governance committee, the background, qualifications and age of each of the other members of the board, considered as a group, and, if applicable, the evaluation of the performance of each director based on previous service on the board, board committees and as liaisons between management and the board or a committee or otherwise working on matters specified by the board.

What is the experience of each nominee for election as a director?

Our board of directors has nominated three persons as class II directors for a three-year term expiring at the end of our annual meeting of shareholders in 2022 or until their successors are duly elected and qualified.

The ages of the directors reported below are as of March 28, 2019.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR ALL" OF THE NOMINEES LISTED BELOW.

Dr. Diana M. Bontá
Dr. Bontá is a member of the nominating and governance committee and the compensation committee and serves as enterprise risk management liaison to the board. She has served as a director since 2007. Dr. Bontá is 68 years old.

Because of her extensive experience in public health and public affairs, Dr. Bontá brings valuable expertise to the board in the areas of customer and community service and corporate governance.

Dr. Bontá has been the President and Chief Executive Officer of The Bontá Group since June 2013. The Bontá Group provides consulting services in healthcare. Previously, Dr. Bontá served as the President and Chief Executive Officer of The California Wellness Foundation, a private independent foundation with a mission to improve the health of the people in California, by making grants, providing wellness education and preventing disease. She has also served as the Vice President of Public Affairs of the Kaiser Foundation Health Plan and Hospitals, Southern California Region, where she was responsible for setting the Region's public policy agenda and providing leadership and oversight of public affairs programs and support for Kaiser Permanente's external communications and reputation management. Dr. Bontá also served as the first Latina director of the California Department of Health Services. Prior to serving as director of the California Department of Health Services, Dr. Bontá served as director of the Department of Health and Human Services of the City of Long Beach, California.

Dr. Bontá holds doctorate and master's degrees in public health from the University of California, Los Angeles. She has held an appointment as an adjunct professor at UCLA's School of Public Health since 1999 and is a registered nurse.

Dr. Bontá has been a trustee of the Annie E. Casey Foundation since 2008 and the Archstone Foundation since 2009. Dr. Bontá served as the chair of the Archstone Foundation audit committee in 2017 and 2018 and is currently serving as the chair of its board of directors. Dr. Bontá has served as a commissioner of the City of Los Angeles Board of Fire Commissioners as an appointee of Mayor Antonio Villaraigosa, and as a director/trustee of the Charles R. Drew University of Medicine and Science. She has also previously served as a director/trustee on the Department of Health and Human Services Minority Health Committee, as an appointee of both California Governors Gray Davis and Arnold Schwarzenegger to the Board of Trustees of the Health Professions Education Foundation, and on the Pat Brown Institute.

Ms. Mary Ann Hopkins
Ms. Hopkins has not previously served on the board of directors of the company or any of its committees. Ms. Hopkins is 54 years old.

Ms. Hopkins has 29 years of progressive experience in engineering and management with an emphasis on infrastructure, environmental, defense, security and intelligence markets, including serving the U.S. government. This experience should be helpful to the board in its oversight of ASUS's military privatization activities and the infrastructure and environmental issues facing the water and electric utility industries in California.

Ms. Hopkins has been a Group Executive at Arcadis NV, a global design, engineering and consulting company based in the Netherlands, since 2016. She is a member of the Arcadis Executive Leadership Team and is responsible for overseeing the Arcadis North American and South American regions and the architecture practice of Arcadis. From 2012 until 2016, she was a Group President of Parsons Corporation, an international engineering, construction, technical and management services firm whose customers include the U.S. government. As Group President, she was responsible for worldwide operations of the Federal Unit of Parsons serving the primary markets of infrastructure, environmental, defense, security and intelligence. Prior to her promotion to Group President, she has served in various other executive and management capacities at Parsons since 1989.

Ms. Hopkins has been a member of the board of directors and the audit, risk and compliance committee and the finance committee at Blumont since 2016. Blumont delivers shelter, food and non-humanitarian aid to refugees and internally displaced persons impacted by political crisis.

Ms. Hopkins has a BS and a master's degree in civil engineering from Syracuse University and attended the Advanced Management Program at Duke University. She is a registered Professional Engineer in Virginia.

Mr. Robert J. Sprowls

Mr. Sprowls has served on the American States Water Company board since May 2009 and the boards of the subsidiary companies since his appointment as President and Chief Executive Officer of the company effective January 2009. Mr. Sprowls is a member of the ASUS committee. He is 61 years old.

Mr. Sprowls is the sole management member of the board of directors. As President and Chief Executive Officer of the company since 2009 and Chief Financial Officer for four years prior to that, Mr. Sprowls has an intimate knowledge of the company and its operations and personnel. He has also been in a leadership role in the water industry having served as President and a member of the executive committee of the National Association of Water Companies, a non-profit organization representing private water companies. He has more than 30 years of experience in business strategy, operations management, corporate finance and business problem-solving for regulated utilities, utility holding companies and highly competitive, non-regulated utility affiliates.

Mr. Sprowls is the President and Chief Executive Officer of American States Water Company and holds similar titles and responsibilities for the company's subsidiaries, Golden State Water Company, or GSWC, and American States Utility Services, Inc. and its subsidiaries, or ASUS.

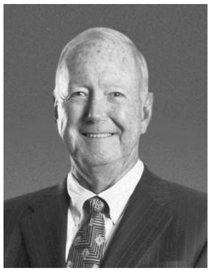
Prior to joining American States Water Company, Mr. Sprowls spent 21 years at CILCORP Inc., or CILCORP, a public utility holding company whose largest subsidiary, Central Illinois Light Company, served approximately 250,000 gas and electric utility customers. During his tenure with CILCORP, Mr. Sprowls held positions as President, Business Unit Leader – Energy Delivery, Chief Financial Officer (CFO) and Treasurer of Central Illinois Light Company, CFO of a non-regulated subsidiary of CILCORP, QST Enterprises Inc., and Vice President and Treasurer of CILCORP. Mr. Sprowls left CILCORP and Central Illinois Light Company following the sale of the company to Ameren Corporation in 2003.

Mr. Sprowls is currently a member of the board of directors of the National Association of Water Companies and a member of the Southern California Leadership Council. He has served on the board of directors of CILCORP Inc. and Central Illinois Light Company. He has been a past chairman and a member of the board of directors of the Illinois Energy Association, a past chairman and a member of the board of directors of Goodwill Industries of Central Illinois and a committee chairman for the Heart of Illinois United Way Campaign.

He holds a BA degree in economics and business administration from Knox College in Illinois and a master's degree in business administration from Bradley University, also in Illinois. He is a Certified Public Accountant (Inactive) and a Certified Management Accountant.

What is the experience of our other directors?

Our board has three class III directors with terms expiring at the end of the annual meeting in 2020 or until their successors are duly elected and qualified.



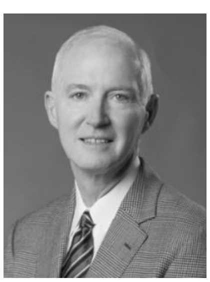
Mr. John R. Fielder
Mr. Fielder was appointed by the board as a director on January 2, 2013. He has been a member of the audit and finance committee since January 25, 2013 and a member of the ASUS committee since May 20, 2013. He is 73 years old.

Mr. Fielder brings a unique blend of experience in the areas of public utility regulation, strategy, management and information technology matters as a result of over 40 years of experience at Southern California Edison Company.

Mr. Fielder is retired. He was President of Southern California Edison Company from October 2005 until his retirement on December 31, 2010. As President, he was responsible for operations support, customer service, information technology, environmental affairs, state regulatory and public affairs and employee relations. Prior to his position as President, Mr. Fielder held various leadership positions at the Company, including Senior Vice President of Regulatory Affairs for 14 years and Vice President of Information Services.

Mr. Fielder has served on a number of not-for-profit boards during his career. He currently serves on the governing board of Long Beach Memorial Hospital and the hospital's Foundation board. He is a member of the Memorial Health Services investment committee. Since 2006, he has also served as a member of the board of the Rancho Los Cerritos Foundation, which supports a historic property and museum in Long Beach, California, and has served on the finance committee of the Foundation since 2012. He also served a two-year term as chair of the board of the Long Beach Aquarium of the Pacific in 2011 and 2012 and a term as the chair of the audit committee of the Aquarium in 2013 and 2014. In addition, he has served on the board development committee of Long Beach BLAST, a program to connect college students with youth facing adversity. He has also served on various industry association boards during his career.

Mr. Fielder has a BA degree from the University of California, Santa Barbara, an MBA from the University of California, Los Angeles, and a law degree from Pepperdine School of Law.



Mr. James F. McNulty
Mr. McNulty was appointed to the board in January 2010. He is chair of the ASUS committee, was a member of the nominating and governance committee until May 20, 2013 and became a member of the compensation committee on May 20, 2013. Mr. McNulty is 76 years old.

Mr. McNulty has expertise in engineering, government contracting and project management. Because of his 24 years of service in the Army and his experience at Parsons Corporation discussed below, he is able to provide valuable insights to the ASUS committee with respect to its oversight of the company's military utility privatization projects. He also has knowledge of the practices of other public companies due to his service on the board of other public companies and his work as the former chair and Chief Executive Officer of Parsons Corporation.

Mr. McNulty is retired. He is the former chairman and Chief Executive Officer of Parsons Corporation, an international engineering, construction and technical and management services firm whose customers include the U.S. government. He retired from the Corporation in May 2008 but continued to serve on the Board and as Chairman of the Board until November 2008.

From 2009 until December 2018, Mr. McNulty served as a director and member of the compensation and nominating and governance committees of ARC Document Solutions, a publicly-traded document management company. From 2013 until December 2018, he also served as the chair of its compensation committee.

Mr. McNulty has a BS degree in engineering from the United States Military Academy at West Point and master's degrees from The Ohio State University and the Massachusetts Institute of Technology where he was an Alfred P. Sloan Fellow.

Prior to February 2017, Mr. McNulty served as a trustee of the Linsly School, his high school alma mater in Wheeling, West Virginia. He is also a past member of the board of directors of the Greater Los Angeles Chamber of Commerce, the California Science Center, the Los Angeles Sports Council and the board of trustees of Pomona College. He is a former chairman of Town Hall, Los Angeles.

Ms. Janice F. Wilkins
Ms. Wilkins has been a member of the board since her election in May 2011. She is a member of the audit and finance committee and the ASUS committee. Ms. Wilkins is 74 years old.

Ms. Wilkins brings extensive expertise to the board in accounting and finance, public company reporting, internal auditing and the development and oversight of ethics and compliance programs.

Ms. Wilkins retired as Vice President of Finance and the Director of Internal Audit for Intel Corporation in June 2010 where she was responsible for global internal audit, investigations, and ethics and compliance operations staffs. During her 29-year career with Intel, she held various operational and corporate finance controllership, management and executive positions and managed the human resource organization responsible for U.S. compensation and benefits

In 2001, Ms. Wilkins was recognized by *Ebony Magazine* as one of the top-ranking African American women in corporate America. In 2004, she was named Outstanding Businesswoman of the Year by the Gamma Nu Chapter of Iota Lambda Sorority, with recognition from the U.S. Senator from California, a California State Senator, and the Mayor of San Francisco.

Ms. Wilkins holds a BS degree in accounting from Xavier University in New Orleans, Louisiana, and an MBA from Golden Gate University in San Francisco, California. She has been a member of the Institute of Internal Auditors and

Financial Executives International. She has also been involved in professional organizations such as the Conference Board, the Audit Director Roundtable, the Compliance and Ethics Leadership Council of the Corporate Executive Board, the General Auditors' Council of Manufacturers' Alliance and the National Association of Corporate Directors.

Ms. Wilkins currently serves as a member of the Board of Trustees of Golden Gate University and is a member of the audit and finance committees. She previously served as a member of the Board of Trustees of Sacred Heart Schools in Atherton, California, where she chaired the Audit Committee from 2008-2013. In addition, she was a member of the Links, Inc., an organization that promotes and engages in educational, civic and inter-cultural activities to enrich the lives of members of the African-American community. She served on the Executive Board and as Treasurer of the Peninsular Bay Chapter of the Links, Inc. Ms. Wilkins was a member of the Board of Trustees of her alma mater, Xavier University, in New Orleans where she chaired the business affairs committee. Ms. Wilkins has also served as a member of the Finance Council of St. Pius Church in Redwood City, California.

Our board has three class I directors with terms expiring at the end of the annual meeting in 2021 or until their successors are duly elected and qualified.

Mr. James L. Anderson
Mr. Anderson is chair of the compensation committee and a member of our nominating and governance committee. He has served as a director since 1997. Mr. Anderson is 75 years old.

Mr. Anderson brings strong leadership and management skills to the board developed through his extensive experience as an executive in the insurance industry. His business acumen and operational experience have also enabled him to provide valuable insights to the board and the committees on which he serves.

Mr. Anderson is retired. He was a Senior Vice President of Americo Life, Inc., a privately held life insurance and annuity holding company, from 2003 until his retirement on June 1, 2018. He was also a Senior Vice President of several subsidiaries of Americo Life, Inc. engaged in the marketing and underwriting of life and annuity insurance products from 2003 until his retirement on June 1, 2018. On June 1, 2018, he began serving on the board of Americo Life, Inc. and several of its subsidiaries. Prior to 2003, he was President of Americo Financial Services, a third-party administrator and marketer of retirement plans, life insurance and annuities in the education industry and to seniors. He also served for ten years as the President and Chief Executive Officer of Fremont Life Insurance Company prior to its acquisition by Americo Life, Inc. in 1996.

Mr. Anderson has a BS degree in business from Fort Hays Kansas State University.

Ms. Sarah J. Anderson

Ms. Anderson was appointed by the board as a director on March 21, 2012. She has been the chair of the audit and finance committee since May 20, 2013 and was a member of the ASUS committee from May 22, 2012 until May 20, 2013. She was a member of the audit and finance committee prior to her appointment as a chair of the committee. She is 68 years old.

Ms. Anderson brings additional expertise to the board in the areas of accounting and financial advisory services. Her financial and accounting experience enables her to understand and analyze accounting matters and to communicate well with both our internal and external auditors. She keeps abreast of current accounting and financial topics and is able to ask appropriate questions of management and auditors alike. She understands tax, audit procedures, financial reporting requirements and risk identification and assessment issues and has knowledge of practices at other public companies in other industries through her work as an auditor and as a board member of other public companies. She also possesses valuable management experience because of the various leadership roles that she has held in the accounting profession and in the government and non-profit sectors.

Ms. Anderson retired from Ernst &Young LLP in 2008 where she served for 24 years, 21 years of which she served as an advisory services partner. She served many clients, both public and private, across various industries, including utilities, government and service industries. Ms. Anderson served in multiple leadership positions at Ernst & Young LLP, including serving as the managing partner of both the company's Orange County and Riverside offices.

Ms. Anderson has a BS degree in business administration with a concentration in accounting from Northeastern University. She is a licensed California CPA (inactive) and is a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

Ms. Anderson served on the California Board of Accountancy from 2006 until 2013 during which she served on the legislative and professional practice committees. She also served as chair of the Board in 2011. Ms. Anderson has also been a member of the Accountancy Licensee Database Committee and the Uniform Accountancy Act Committee for the National Association of State Boards of Accountancy.

Ms. Anderson has served on the board of directors since June 2012 and is the audit committee chair of Reliance Steel & Aluminum Company as well as a member of their nominating and governance committee. She was also a member of their compensation committee through 2016. She previously served on the board of managers of Kaiser Ventures, LLC as the chair of its audit committee from November 2010 until its liquidation in May 2013.

Ms. Anderson is a life director of the Pacific Symphony after serving as an active board member for 15 years, during which time she served on the audit, board affairs, orchestra relations, education and strategic planning committees. She served as chair of the board of the Pacific Symphony from 2009 to 2013. She joined the board of the South Coast Repertory Theater in 2015 and serves on the finance committee and as vice chair of development for the theater.

Ms. Anderson has been recognized by the Orange County Business Journal as a leading woman in business and has previously been honored with the Athena Award as a Business Woman of Achievement by the YWCA and the Greater Riverside Chambers of Commerce.

Ms. Anne M. Holloway

Ms. Holloway is chair of the nominating and governance committee and a member of the compensation committee. On August 1, 2018, Ms. Holloway was appointed as Vice Chairman. Ms. Holloway has served as a director since 1998. Ms. Holloway is 66 years old.

Ms. Holloway brings valuable expertise to the board in the areas of finance, human resources and corporate governance matters obtained through her experience in the financial services industry and her experiences in providing strategic advice to Fortune 500 companies.

Ms. Holloway is retired. She was a partner at Navigant Consulting, Inc., a provider of financial and strategic consulting services to Fortune 500 companies, governments and governmental agencies from 1999 to 2000. She served as President of Resolution Credit Services Corp., a subsidiary of Xerox Financial Services, from 1992 to 1999 where she was responsible for, among other things, the successful resolution of financial guarantees on troubled tax-exempt bonds, the restructuring of debt and negotiation with the Resolution Trust Corporation. She also served as Chief Operating Officer of International Insurance Company, another company in the Resolution Group, where she was responsible for operations, human resources and technology. Prior to joining the Resolution Group, Ms. Holloway held various management positions with Shawmut National Corporation, a financial services company.

Ms. Holloway holds a BA degree from Newton College of the Sacred Heart and an MBA from Boston University. She has completed the Harvard Business School Executive Management program. In December 2018, she completed the Distinguished Careers Institute at Stanford University.

Ms. Holloway served as the chair of the Board of Trustees of Sacred Heart Schools in Atherton, California from 2008 to 2012. After she completed her chair role, she continued to support the school on the site management and development committees until 2013. She currently serves on the board of the Michael J. Fox Foundation for Parkinson’s Research, and is a supporter of the Bing Center for the Arts at Stanford University and Good Tidings, an organization that designs, builds and funds sports and arts facilities for youth in need in Northern California. Until 2018, she had served as co-chair for the nominating and governance committee for City Year San Jose/Silicon Valley, a national organization that works with AmeriCorps volunteers to reduce dropout rates and improve high school proficiency locally in San Jose, California.

Mr. Lloyd E. Ross
Mr. Ross has been chair of the board of directors of the company since April 1999 and has served as a director since 1995. He has been a non-voting ex-officio member of each of the committees of the board. Mr. Ross is 78 years old.

Mr. Ross has brought valuable leadership, business acumen, financial and operational experience to the board. He also has extensive experience in the construction industry, which has been valuable to the board with respect to the company's public utility capital improvement programs and the company's construction activities on military bases.

Mr. Ross was a principal of L. Ross Consulting from 2003-2010, which provided construction, development and consulting services. He was managing partner of Intermix, LP, a developer of hotels in the southwestern United States and northern Mexico from 1997 to 2003. From 1976, prior to becoming managing partner of Intermix, LP, Mr. Ross was the President and Chief Executive Officer of SMI Construction, a commercial and industrial general contracting firm in Irvine, California. He served on the board of directors of PacifiCare Health Systems from 1985-2005 and as a member of the audit committee and as chair of their compensation committee from 2000-2005. Currently, Mr. Ross serves on the board of directors of the Bigfork County Water and Sewer District in Montana, and on January 1, 2019, he became the president of that organization.

Mr. Ross has served on the board of a number of community organizations and volunteers at a food bank in Kalispell, Montana.

Mr. Ross will continue to serve as a class II director of the board until his successor is duly elected to the board at the 2019 annual meeting.

How did we compensate our directors in 2018?

We paid fees to each of our directors quarterly in cash and made awards of restricted stock units to our directors in 2018 pursuant to the terms of the 2013 directors plan as more particularly described below. We also reimbursed each of our directors in 2018 for expenses incurred in the performance of his or her duties as a director.

DIRECTOR[(1)] COMPENSATION FOR 2018

Name	Fees Paid or Earned in Cash ($)	Stock Awards ($)[(2)]	All Other Compensation ($)[(3)]	Total ($)
Lloyd E. Ross	$160,000	$75,000	$106	$235,106
James L. Anderson	85,500	75,000	106	160,606
Sarah J. Anderson	82,500	75,000	271	157,771
Dr. Diana M. Bontá	76,500	75,000	106	151,606
John R. Fielder	74,500	75,000	271	149,771
Anne M. Holloway	90,417	75,000	106	165,523
James F. McNulty	80,000	75,000	106	155,106
Janice F. Wilkins	74,500	75,000	1,016	150,516

(1) Mr. Sprowls, the president and chief executive officer of the company in 2018, was also a director of the company. We did not pay him any additional compensation for his services as a director or member of any committee.

(2) The amounts in this column reflect the aggregate grant date fair value of the awards on the grant date, computed in accordance with FASB's accounting guidance ASC Topic 718. We provide information regarding the assumptions used in calculation of these amounts in Note 12 to our audited financial statements for the year ended December 31, 2018 in our Annual Report on Form 10-K filed with the SEC. We did not make any other form of stock award to any director in 2018.

(3) We provide our board members and executive officers a blanket accident insurance policy. The policy is intended to provide coverage for traveling on company business or on assignment for the benefit of our company. We allocated one–third of the three-year premium of $6,000 for coverage under the blanket accident insurance policy equally to our board members and executive officers. The cost was $106 per person in 2018. We also reimburse our board members for the related cost of travel and meals of their spouses when attending regular board and committee meetings.

Director Fees

We paid fees to non-employee directors of the board in 2018 for services rendered on the following basis, payable in equal quarterly installments:

- to each non-employee director, an annual retainer of $60,000 for service on the board;
- to Mr. Ross, an additional annual retainer of $100,000 for his services as chair of the board;
- to Ms. Anderson, an additional annual retainer of $22,500 for her services as chair of the audit and finance committee;
- to Mr. Anderson, an additional annual retainer of $20,000 for his services as chair of the compensation committee;
- to Ms. Holloway, an additional annual retainer of $14,000 for her services as chair of the nominating and governance committee during 2018 and an additional retainer of $10,417 for her services as vice chair of the board from August 1, 2018 to December 31, 2018;
- to Mr. McNulty, an additional annual retainer of $14,000 for his services as chair of the ASUS committee;
- to each member of the audit and finance committee, other than the chair, a fee of $9,000;
- to each member of the compensation committee, other than the chair, a fee of $6,000;
- to each member of the nominating and governance and ASUS committees, other than the chairs, a fee of $5,500; and
- to Dr. Bontá, $5,000 for serving as the enterprise risk management liaison.

With the exception of the fee paid to Ms. Holloway for serving as vice chair of the board, these fees are unchanged from the fees that we paid to our directors in 2017.

Stock Awards

We granted restricted stock units to each non-employee director on the date of the annual meeting in 2018 for services rendered as a director in an amount equal to an amount established by the board prior to the annual meeting divided by the closing price of our common shares on the trading day immediately preceding the date of the annual meeting as shown on *The Wall Street Journal* website (www.online.wsj.com). The amount of the grants by the board to directors in 2018 was $75,000 or 1.25 times the annual retainer fee in effect on the date of the grant. The amount of the grants is unchanged from the grants made to our directors in 2017.

Under the terms of the 2013 directors plan, the amount of restricted stock units granted by the board to directors after the date of the 2012 annual meeting of shareholders may not exceed two times the amount of the then-current annual retainer payable by the company for services rendered as a director for such year, or, if there is no such annual retainer, the average amount of cash compensation received by such non-employee director during the prior fiscal year. Restricted stock units granted will vest 90 days after the grant date. In addition, until vested, each non-employee directors is entitled to receive restricted stock units on the dividend record date in an amount equal to the cash dividends payable on this date on a number of shares equal to the aggregate number of restricted stock units credited to each non-employee director's restricted stock unit account divided by the closing price of our common shares on the dividend payment date, as shown on *The Wall Street Journal* website (www.online.wsj.com), which we refer to as dividend equivalents. No awards may be granted under the 2013 directors plan after May 20, 2023.

Each non-employee director who received an award of restricted stock units in 2003 through 2008 in the form of retirement stock units was also credited in 2018 with restricted stock units on each dividend record date in an amount equal to the cash dividends payable on this date on a number of shares equal to the aggregate number of undistributed restricted stock units credited to each non-employee director's restricted stock unit account divided by the closing price of our common shares on the dividend record date, as shown on *The Wall Street Journal website* (www.online.wsj.com). Mr. Anderson, Dr. Bontá, Ms. Holloway and Mr. Ross are the only current directors who have received awards of retirement stock units. Mr. Ross's retirement stock units will be converted to common shares of the company within 30 days after this annual meeting if a new director is elected to fill Mr. Ross' seat on the board at this annual meeting.

Other Compensation Plans for Directors

We have no incentive compensation, deferred compensation or pension plans for non-employee directors.

What process do we use to determine the compensation of non-employee directors?

The compensation of directors in 2018 was based on a review of non-employee director compensation in 2016, which became effective in 2017. In May 2018, the chair of the compensation committee requested Pearl Meyer, its compensation consultant to prepare a review of this compensation program. Pearl Meyer summarized the review that was undertaken by the board in 2016 and then compared the company's non-employee director compensation to the company's peer group used in assessing the competitiveness of the company's executive compensation program described under the heading "Compensation, Discussion and Analysis-Compensation Committee Process." Pearl Meyer then presented several proposals that would align the company's non-employee director compensation with the 50th percentile of the company's peer group. After discussion, the committee directed the chair of the committee and management to prepare a definitive proposal regarding non-employee director compensation for consideration at the company's next compensation committee in July, taking into account the comments of the committee members at this meeting.

In July 2018, the committee approved making the following changes to its non-employee director compensation program, after taking into account the information provided to it by Pearl Meyer on non-employee director compensation, the views of proxy advisory firms on non-employee director compensation, the non-employee director compensation of its peers, general market practices and the views and practices of the California Public Utilities Commission to the extent known:

- to each non-employee director, an increase in the annual retainer for service on the board to $105,000;
- to the chair of the ASUS committee, an increase in the additional annual retainer for services as chair of the ASUS committee to $15,500;
- to each ASUS committee member (other than the chair), an increase in the additional annual retainer for services on the committee to $7,000;
- to each compensation committee member (other than the chair), an increase in the additional annual retainer for services on the committee to $7,500.

These changes became effective on January 2019. In addition, the board approved the granting of restricted stock units to each non-employee director commencing on the date of this annual meeting for services rendered as a director in an amount equal to $40,000 divided by the closing price of our common shares on the trading day immediately preceding the date of the annual meeting as shown on *The Wall Street Journal* website (www.online.wsj.com).

What are our stock ownership guidelines for directors?

Under our director stock ownership guidelines, as amended in 2014, we have requested each non-employee member of our board to accumulate and hold common shares of the company, restricted stock units or other equity equivalents (other than stock options) granted by the company equal in value to four times his or her annual retainer for board service, plus 1,000 common shares, with the latter to be accumulated and held within three years after his or her appointment as a director. Based on the closing stock price on December 31, 2018, the combined stock ownership guideline is 4.89 times the annual retainer for board service. Non-employee directors are also prohibited from selling or transferring common shares awarded by the company until he or she satisfies these requirements, except where the director sells or transfers his or her shares to satisfy applicable tax withholding obligations owed by the director because of the receipt or vesting of his or her shares. The nominating and governance committee may suspend or adjust these guidelines if the nominating and governance committee determines that the guidelines are unduly burdensome by reason of personal circumstances affecting a director, are unduly affected by temporary declines in the price of our common shares or there has been a recent change in the compensation of directors. We have not exempted any of our directors from compliance with these guidelines. We consider these guidelines to have been satisfied once the minimum ownership requirements have been satisfied regardless of subsequent changes in the market value of our common shares. Each member of our board currently satisfies the stock ownership guidelines.

At the July 2018 meeting of the board, the board also considered information provided to it by Pearl Meyer regarding the director stock ownership guidelines of its peers, general market practices and the views of proxy advisory firms on non-employee director stock ownership. As a result of the changes approved by the board to non-employee director compensation, the company's stock ownership guidelines, unless modified, would result in stock ownership guidelines at levels higher than market. The board concluded that this might make it difficult to attract qualified persons to serve as directors regardless of their financial wealth. The board also desired the company's stock ownership guidelines to not be so high as to compromise the independence of the board. After discussion, the board approved modifying the stock ownership guidelines for directors to require each non-employee director to hold at least three times the amount of his or her cash retainer for serving on the board effective January 2019. In addition, the board approved a stock retention guideline that states that generally a non-employee director may not sell any shares until the minimum ownership requirement is satisfied and that he or she must satisfy his or her withholding obligations due in connection with the vesting of such awards out of sources other than such restricted stock units or other equity equivalents. As under the previous guidelines, the nominating and governance committee may suspend or adjust these guidelines in the circumstances described in the previous paragraph.

EXECUTIVE OFFICERS

What has been the business experience of our executive officers during the past five years?

We have set forth the principal occupation of each of our executive officers in the following table. Unless otherwise specified, the principal position of the executive officer is with American States Water Company. Mr. Sprowls, Ms. Tang and Ms. Farrow are also officers of each of our direct and indirect subsidiaries. The age of each executive officer is current as of March 28, 2019.

EXECUTIVE EXPERIENCE TABLE

Name	Principal Occupation and Experience	Age	Held Current Position Since
Robert J. Sprowls	President and Chief Executive Officer	61	January 2009
Eva G. Tang	Senior Vice President – Finance, Chief Financial Officer, Corporate Secretary and Treasurer	63	November 2008
Denise L. Kruger	Senior Vice President – Regulated Utilities of Golden State Water Company	55	January 2008
James C. Cotton	Senior Vice President and Procurement Officer of American States Utility Services, Inc. and its subsidiaries; Vice President - Contracts of American States Utility Services, Inc. and its subsidiaries from November 2012 to December 2014	45	December 2014
Patrick R. Scanlon	Vice President – Water Operations of Golden State Water Company	61	January 2008
Gladys M. Farrow	Vice President – Finance, Treasurer and Assistant Secretary of Golden State Water Company and Treasurer and Assistant Secretary of the other subsidiaries of American States Water Company [(1)]	54	November 2008
William C. Gedney	Vice President – Environmental Quality of Golden State Water Company; Vice President – Asset Management of Golden State Water Company from January 2008 to May 2015	64	May 2015
Granville R. Hodges	Vice President – Operations of American States Utility Services, Inc. and its subsidiaries	59	January 2007
Paul J. Rowley	Vice President –Water Operations of Golden State Water Company; Director of Procurement Services of Golden State Water Company from November 2014; District Manager of Golden State Water Company from March 2007 to November 2014	54	January 2016
Bryan K. Switzer	Vice President – Regulatory Affairs of Golden State Water Company	62	September 2004
Gabriel Willis	Vice President – Strategic Business Development of American States Utility Services, Inc.; Director of Strategic Business Development of American States Utility Services, Inc. from January 2016 to July 2018; Manager of Proposal Development of American States Utility Services, Inc. from March 2012 to December 2015	39	July 2018

(1) Ms. Farrow also serves as Assistant Secretary of American States Water Company.

Compensation Discussion and Analysis

In this section, we describe the philosophy and objectives of our executive compensation programs, explain the compensation decision-making process, summarize the individual components of total compensation for our named executive officers and provide you with our assessment of our compensation program in 2018. We provide more detailed information regarding the compensation paid to our named executive officers during the past three years in the tables following this section and in the narrative discussion after each of these tables. For 2018, our named executive officers included:

- Robert J. Sprowls, President and Chief Executive Officer,
- Eva G. Tang, Senior Vice President-Finance, Chief Financial Officer, Corporate Secretary and Treasurer,
- Denise L. Kruger, Senior Vice President-Regulated Utilities of Golden State Water Company,
- James C. Cotton, Senior Vice President and Procurement Officer of American States Utility Services, Inc., and
- Patrick R. Scanlon, Vice President-Water Operations of Golden State Water Company.

We also provide information comparing our performance to our peer group. You can find information about the composition of our peer group in this section under the heading “Compensation Committee Process.” The compensation committee made its decisions regarding compensation of our named executive officers in 2018 based, in part, on this peer group information. We have compared our financial performance during the past three and five years to members of our peer group.

Financial Highlights

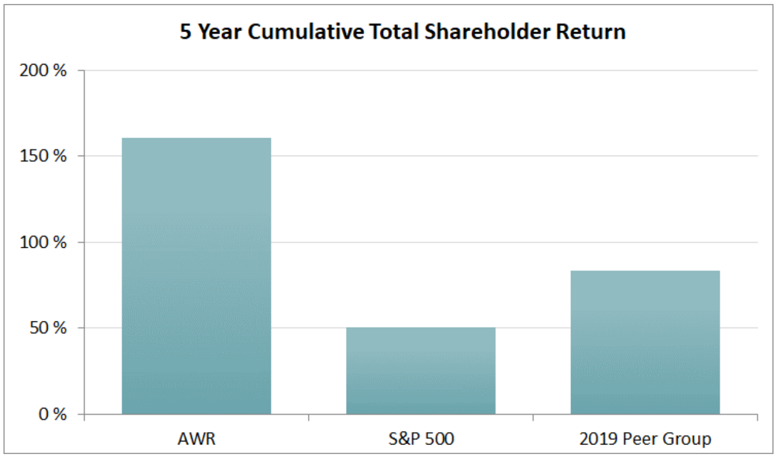
The company has achieved a compound annual growth rate in consolidated diluted earnings per share of 10.6% for the 10-year period ended December 31, 2018. In 2018, the company’s military base contracted services business achieved its highest diluted earnings per share contribution. In July 2018, we commenced operations at Fort Riley located in Kansas and now operate water and/or wastewater systems and treatment plants for 11 military bases throughout the country.

Over the past five years, we also achieved:

- 6.9% compound annual growth in dividends and
- 5.6% compound annual growth in net utility plant at the regulated utilities (invested over $500 million in company-funded capital).

Additional facts regarding the Company’s financial performance can be found under the heading “Investors” on the Company’s website at aswater.com.

The following table compares our cumulative total shareholder return, including reinvested dividends, for the five years ended December 31, 2018 to the cumulative total shareholder return, including reinvested dividends, for the same period of the S&P 500 and the members of our current peer group.



Approach to Compensation

The compensation committee desires to implement the company's executive compensation program in a manner that will enable the company to:

- attract, retain and motivate talented and experienced executives,
- provide fair, equitable and reasonable compensation to each executive officer,
- reward job performance, and
- further align the interests of our executive officers with that of our shareholders and customers.

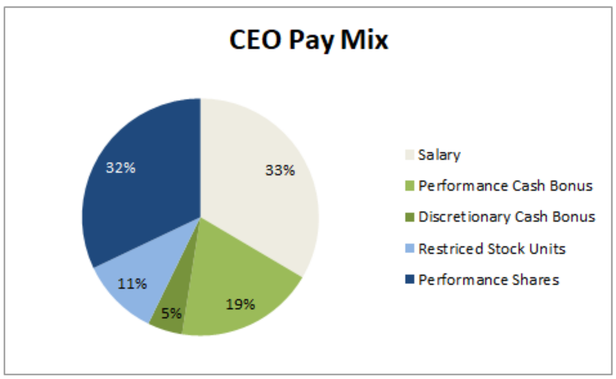
Executive Compensation Practices at a Glance

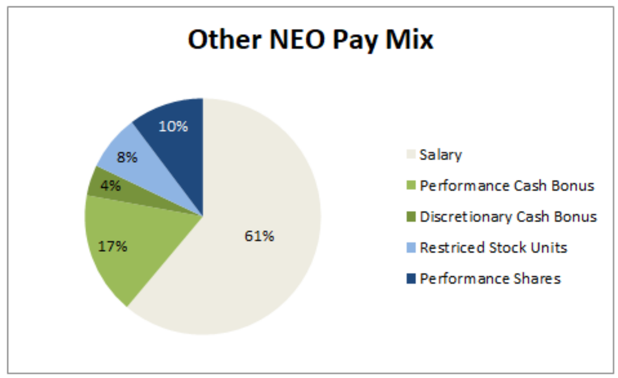
WHAT WE DO	WHAT WE DO NOT DO
✓ **Pay for Performance Absolute and Relative:** We link pay to performance and shareholder and customer interests by weighting a portion of total direct compensation to the achievement of a balanced mix of performance metrics, both internal and relative to our peers, established in advance by the compensation committee	× **No Employment Agreements:** We do not have employment agreements with any of our executive officers
✓ **Generally, at least 50% of Long-Term Equity Awards Are Performance-Based:** At least 75% of long-term equity awards to the CEO and senior vice president of ASUS have been in the form of performance shares tied to three-year performance objectives. Generally, at least 50% of long-term equity awards to regulated utility executive officers are in the form of performance shares tied to three-year performance objectives	× **No "Single Trigger" Cash Severance Payments, Equity Awards or Tax Gross Ups:** We do not have "single trigger" cash severance payments or equity awards paid solely because of the occurrence of a change of control event and do not provide tax gross ups
✓ **Thoughtful Peer Group Analysis:** The compensation committee reviews external market data when making compensation decisions and annually reviews our peer group with our independent compensation consultant	× **No Hedging in Company Securities:** We have a policy prohibiting executives and directors from engaging in any hedging transaction with respect to company equity securities
✓ **Compensation Risk Assessment:** The compensation committee conducts an annual assessment of whether the company's executive or broad-based compensation programs encourage excessive risk-taking	× **No Pledging Company Securities:** We have a policy generally prohibiting pledges of company securities by our executives and directors unless the nominating and governance committee approves in advance. No officer or director has pledged shares since the policy was implemented
✓ **Stock Ownership Guidelines:** Executives are subject to stock ownership guidelines equal to a multiple of their annual base salaries (3x for the CEO, 1.5x for senior vice presidents and 1x for vice presidents); directors are also subject to stock ownership guidelines and restrictions on sales of common shares until they own stock equal to 3x their annual cash retainer	× **No Repricing, Repurchasing or Discounting of Options:** We do not reprice or repurchase underwater awards and we do not grant options at a discount to fair market value on the date of grant
✓ **"Clawback" Policy:** Our clawback policy provides for the recoupment of cash and stock incentive compensation from an executive officer if, as a result of a financial restatement, the compensation committee determines that the company would have paid the executive officer less than he or she was paid prior to the restatement	× **No Guaranteed Bonuses:** We do not provide guaranteed minimum bonuses or uncapped incentives under our annual cash incentive plan

2018 Pay Mix

The principal elements of our compensation program include a base salary, annual cash incentives, a portion of which is based on achieving financial, operational and customer service objectives during the year, and annual equity grants, a portion of which is based on achieving financial and operational performance objectives during a three-year performance period. We refer to the combination of these elements of compensation as total direct compensation.

The compensation committee set the target percentages presented in the chart below for each component of total direct compensation in 2018, assuming that each named executive officer would earn the aggregate target during the year in annual cash incentives and at the target level following the end of the three-year performance period for the performance stock awards. As these charts show, approximately 67% and 39% of target total direct compensation (salary, bonus and equity) is variable (or "at-risk") for our CEO and other named executive officers, respectively.





In determining the target percentages for each component of total direct compensation, the compensation committee considered the practices of our current peer group, how well the company's pay levels are aligned with performance compared to the company's current peer group, the views and practices of the California Public Utilities Commission, or CPUC, in setting rates, the practices of the two water utilities regulated by the CPUC that are members of our current peer group, the preference of proxy advisory firms for significant portions of total direct compensation to consist of variable pay based on the satisfaction of objective performance targets and the prior year's performance of the executive officer. The compensation committee also believes that it is generally important for more of the compensation of the chief executive officer to be dependent on performance than that of the other executive officers.

The mix of total direct compensation awarded in 2018 which will be received by an executive officer (which does not include the actuarial calculation of the change in pension value or other compensation shown in the Summary Compensation Table) may be different from the target mix depending upon, a variety of factors, the value of some of which cannot yet be determined. The factors affecting actual total direct compensation awarded in 2018 that have not yet been determined include:

- the company's financial and operational performance for the three-year performance period with respect to the performance measures set forth in the executive's applicable performance stock award agreement for this period;
- the value of the company's common shares upon the vesting of time vested restricted stock units awarded to the executive in 2018 and the value of dividend equivalent rights on dividends paid after 2018 on these restricted stock units (no restricted stock units awarded to an executive in 2018 vested in 2018); and

- the value of the company's common shares following the determination of the number of common shares to be received by an executive based upon satisfaction of the objective performance criteria set forth in the performance stock award agreements for the three-year performance period and the time vesting of these awards, together with the value of any dividend equivalent rights thereon.

Alignment of CEO Pay with Performance

During the review of our overall executive compensation program in January 2018 and January 2019, our consultant, (Pearl Meyer) reviewed the relationship between realizable total direct compensation of our CEO and our performance for the two three-year periods ended December 31, 2017 and December 31, 2018. This review was conducted to assist the compensation committee in understanding the degree of alignment between realizable total direct compensation delivered to the CEO during these two periods and our performance relative to our peer group. For purposes of this review, company performance is defined as total shareholder return (including reinvested dividends) over the respective three-year period. Total direct peer group realizable compensation is defined as the sum of:

- Actual base salaries paid over the three-year period ending December 31, 2017;
- Actual short-term cash incentives (bonuses) earned over the three-year period ending December 31, 2017;
- Cumulative "in-the-money" value as of December 31, 2017 of any stock options granted over the prior three-year period;
- Cumulative value as of December 31, 2017 of any restricted shares or restricted stock units granted over the prior three-year period and payouts of performance shares made for completed performance periods; and
- The value as of December 31, 2017 of any performance shares at target for any incomplete performance periods.

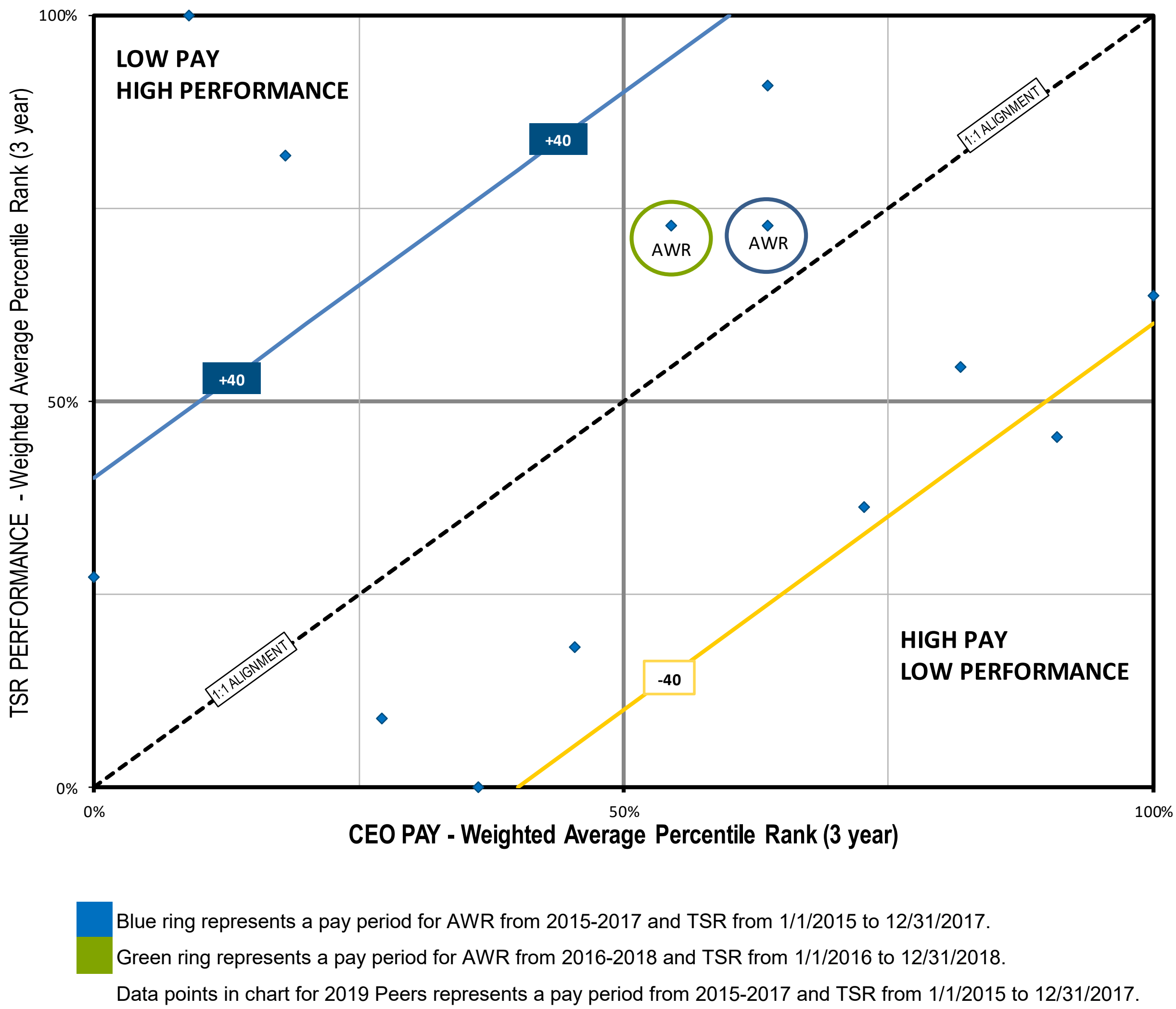
As a second comparison, we also reviewed our CEO's pay for performance using realizable pay from January 1, 2016 to December 31, 2018 compared to total shareholder return (including reinvested dividends) over the same period. Peer company pay is based on 2016 and 2017 actual pay with an estimate of 2018 pay equal to 2017 since 2018 pay information for most of our peers was not available at the time of this analysis.

For all performance periods, the company's performance has been equal to or greater than its relative CEO pay rank for the peer group. We believe that this indicates an efficient compensation plan design relative to performance achieved.

Performance Period	Total Shareholder Return Relative Rank	Pay Relative Rank (CEO)
2014-2016(1)	73rd Percentile	73rd Percentile
2015–2017(2)	73rd Percentile	64th Percentile
2016–2018(2)	73rd Percentile	55th Percentile

(1) Comparison to the peer group used in 2016.
(2) Comparison to the current peer group.

The following chart further illustrates the pay for performance analysis of our CEO using realizable pay relative to each member of our current peer group over the two pay periods, 2015-2017 and 2016-2018.



Compensation Committee Process

The compensation committee annually reviews our executive compensation program in order to assess whether the program continues to meet the objectives of the program. The compensation committee typically engages a compensation consultant to assist the committee.

The compensation committee engaged Pearl Meyer in August 2011 as a compensation consultant to the committee. After a consideration of the merits of engaging a new compensation consultant compared to the benefits of retaining Pearl Meyer and an independence assessment of Pearl Meyer, the committee decided to extend the engagement of Pearl Meyer for 2018. In conducting its independence assessment, the compensation committee concluded that no conflicts of interest existed between the company and Pearl Meyer (or any individuals working on the company's account on behalf of Pearl Meyer). We provide additional information regarding this assessment under the heading "Compensation Committee - Is our compensation consultant independent?"

Pearl Meyer identified and selected a peer group of companies. The selection process included input from management. The final peer group was approved by the compensation committee. Our current peer group is presented below:

ALLETE, Inc.
Aqua America, Inc.
California Water Service Group
Chesapeake Utilities Corporation
El Paso Electric Company
MGE Energy, Inc.
Northwest Natural Gas Company
Otter Tail Corporation
SJW Group
South Jersey Industries, Inc.
Unitil Corporation

Owing to the limited number of similarly sized water utilities (with annual revenues between $100 million and $1 billion), peer companies were selected based on similarity in industry (water, gas and electric utilities) and size. The compensation committee considered compensation information for this same group of companies during the past two years. The peer group in 2016 included UIL Holdings and Empire District Electric Company, both of which have been acquired, and ITC Holdings Corp. which was dropped from our current peer group because it had too high of a market capitalization. Our peer group in 2016 did not include Otter Tail Corporation, which was added to our peer group in 2017 as the utility closest in market capitalization to the company.

Three members of the current peer group are principally in the water industry, two of which are also regulated by the CPUC, the regulator of the company's principal subsidiary. The compensation committee often gives greater weight to the practices of the two CPUC-regulated companies since the company competes with these companies for executive talent and is subject to similar regulatory oversight. In addition, the compensation committee believes that the financial and operational performance of these companies and the compensation programs of these companies are particularly relevant since the ability of these companies to earn their authorized rate of return and to obtain rate adjustments for changes in employee compensation are also affected to some extent by the rules, regulations and practices of the CPUC. These companies are, to some extent, also affected by the same weather, climate and economic conditions as the company. The other companies in our current peer group are utilities or utility holding companies.

The compensation committee considered the competitive assessment of the company's executive compensation program provided by Pearl Meyer in January 2018 based on information derived by Pearl Meyer from the Towers Watson-2017 Top Management Compensation Survey (all industries) and three confidential/proprietary general industry surveys. The competitive assessment was summary in nature, did not identify any particular company and did not contain any information regarding the compensation program of any particular company. Accordingly, the compensation committee did not consider the compensation practice of any company, other than the compensation practices of members of our current peer group, in designing any of the company's compensation plans.

Pearl Meyer noted in the competitive assessment provided to the compensation committee that, in the aggregate, both the actual and the target total direct compensation of the executive officers of the company was at the market median. The company's actual total cash compensation of the company's executive officers was, in the aggregate, between the 50^{th} and 75^{th} percentile while target total cash compensation was at the market median. Pearl Meyer also noted in the competitive assessment that, in the aggregate, the company's target and actual long-term incentive grants and annual target cash incentive awards were below the market median.

In addition to the information provided by Pearl Meyer, the compensation committee considered:

- the chief executive officer's subjective assessment of the company's performance and the performance of individual executive officers,
- the recommendations of the chief executive officer for adjustments in the base salary and incentive compensation of other executive officers and managers,
- compensation increases authorized by the CPUC in rate cases of the company's principal subsidiary, GSWC,
- a subjective assessment by individual directors of the company's performance and the performance of the chief executive officer and other members of the management team,
- a subjective assessment of whether the company's compensation program properly incents management,
- objective measures of the company's financial, operational and customer service performance established in the company's short-term incentive program,
- objective measures of the company's financial performance used in establishing performance criteria for performance stock awards under the 2008 plan,
- the views of proxy advisory firms, and
- the views of the CPUC regarding the company's compensation programs or practices, to the extent known.

Risk Consideration

The compensation committee conducted a review of the company's incentive compensation programs, the safeguards in place to prevent fraud by management in manipulating the company's compensation programs and the potential risks associated with certain scenarios assuming management misreported the company's performance for the purposes of inflating results under the company's incentive compensation plans. The compensation committee also considered whether the company's overall compensation program encourages unnecessary or excessive risk taking and has concluded that it does not.

<u>Pay Mix</u>

Base salaries, which constitute the largest component of total direct compensation for all employees of the company, other than the CEO, are fixed in amount and thus should not encourage excessive risk taking.

<u>Balanced Performance Measures</u>

The compensation committee considers a variety of factors in awarding additional cash compensation based on the performance of its executive officers, including factors based on earnings performance, customer satisfaction, capital improvements, employee safety, supplier diversity, improvements in operations and internal controls. The committee believes that, because of this mix of factors, the company's short-term cash incentive program appropriately balances risk and the committee's desire to compensate executives for accomplishments that are important to the company's customers and shareholders.

The compensation committee also makes awards of restricted stock units and performance stock to executive officers. Restricted stock units and performance stock awards granted vest at the rate of 33% in the first year, 33% in the second year and 34% in the third year and, with respect to performance stock awards, provide for determination of whether the performance criteria have been satisfied after the end of a three-year performance period, subject to limited exceptions. In addition, we may not repurchase any options granted to any executive officers or managers after March 18, 2014 or reprice any options awarded to any executive officer or manager. The compensation committee believes that these features of our equity plans further discourage excessive risk-taking by executives. In addition, the vesting schedule serves as a retention vehicle for executive officers and managers.

Recoupment Policy

In order to mitigate risks that may be associated with performance-based compensation, the compensation committee maintains a clawback policy to recoup cash and equity performance-based compensation payments if:

- we calculated the amount of the compensation based on achieving financial results that were subsequently subject to an accounting restatement due to material noncompliance with a financial reporting requirement under the securities laws,
- we identified the need for the accounting restatement within three years after the date of the filing of financial results that were subsequently restated, and
- we would have paid a lesser amount to the executive officer based on the restated financial results.

All awards made to executives under our 2008 plan after December 31, 2010, all awards made under our short-term cash incentive plan, and 2016 plan are subject to this policy and any rights to repayment that the company may have under Section 304 of the Sarbanes-Oxley Act of 2002 and other applicable laws.

Anti-Hedging Policy; Anti-Pledging Policy

We adopted a policy that prohibits hedging or monetization transactions, such as prepaid variable contracts, equity swaps, collars and exchange funds that allow an officer or director to lock in much of the value of his or her holdings of our common shares, often in exchange for all or part of the potential for the upside appreciation in our common shares. We have also adopted a policy that prohibits holding our common shares in a margin account and, absent a waiver by the nominating and governance committee, the pledging of our common shares as collateral for a loan by our officers and directors. The nominating and governance committee may only grant a waiver of our anti-pledging policy if the officer or director desires to pledge our common shares as collateral for a loan and has established, to the satisfaction of the nominating and governance committee, that the officer or director is able to repay the loan without resort to the pledged securities. Each of our officers and directors has represented to us that he or she has not purchased any financial instrument designed to hedge or offset any decrease in the market value of any company common shares held, directly or indirectly, by such officer or director, held any of our securities in a margin account or pledged any of our common shares as collateral for a loan since the adoption of this policy.

In addition to establishing and reviewing our compensation program, the compensation committee also examines the pay practices and policies relating to all employees of the company. Based on this examination, the compensation committee has concluded that our pay practices and policies do not appear to involve risks that could have a material adverse effect on us.

Elements of Executive Compensation

Our compensation program consists of base salary, short-term cash incentives, stock awards, retirement benefits, severance arrangements and welfare and other benefits and perquisites. We discuss each of these elements in more detail below. The compensation committee considers each of these elements independently before assessing whether its overall compensation program is competitive with that of our current peer group and other companies with which the company competes for executive talent.

Base Salary

We pay a base salary to enable us to attract and retain talented executive officers and to provide a fixed base of compensation commensurate with the individual responsibilities, performance and experience of each of our executives.

The compensation committee considered the following factors in setting the base salaries of individual executive officers in 2018:

- the competitiveness of the compensation of each executive officer compared to executive officers of our current peer group in comparable positions,
- the desire to compensate executives of GSWC in comparable positions in a similar manner,
- the desire to have more of the compensation of executives of ASUS to be performance-based,
- a subjective assessment of each executive's performance during 2017, including his or her performance in the areas of our business over which he or she had individual responsibility, and
- a review of the company's financial performance and management's accomplishments during 2017.

After consideration of the factors described above, the compensation committee increased the base salary of Mr. Sprowls, Ms. Tang, Ms. Kruger, Mr. Cotton, and Mr. Scanlon by 3.0%, 5.6%, 4.0%, 5.0%, and 3.6%, respectively, in January 2018.

Short-Term Cash Incentives

We adopted a short-term cash performance incentive plan to motivate executives who participate in the plan to maximize our performance from a financial, operations and customer service perspective. We believe that the performance incentives set forth in our annual short-term cash incentive programs will encourage achievement of our objectives. Our customers and shareholders benefit if we achieve our customer service objectives. Our customers and shareholders also benefit if we can attract capital at a lower cost as a result of improved financial performance.

In March 2018, the compensation committee approved a short-term cash incentive program, which gave each named executive officer the opportunity to receive:

- 80% of each executive's target incentive based on achieving objective performance criteria in 2018, and
- 20% of each executive's target incentive based on a subjective assessment by the compensation committee of the executive officer's performance in 2018 following the end of the year.

The table below outlines the range of cash incentives approved by the compensation committee in 2018 for each executive officer under the plan.

Name	Threshold Cash Incentive as % of Base Salary	Target Cash Incentive as % of Base Salary	Maximum Cash Incentive as % of Base Salary
Robert J. Sprowls	35.5%	71.0%	110.1%
Eva G. Tang	15.8%	31.5%	48.8%
Denise L. Kruger	15.8%	31.5%	47.3%
James C. Cotton	25.8%	51.5%	87.6%
Patrick R. Scanlon	13.0%	26.0%	39.0%

Under this program, the compensation committee approves specific performance metrics for each executive officer for the objective cash incentive depending on his or her responsibilities within the company, established minimums, targets, and maximums for each objective, and weights each executive's goals so that target achievement of all performance metrics will result in target cash incentive payout for the year for the objective portion of the award. The compensation committee may, in its discretion, reduce an award below the level earned for each of the criteria or upon the failure to satisfy other objective criteria, but, may not in any event, increase the amount of the bonus above the level specified for that criteria. The maximum amount that may be payable to any executive officer under this program is $1,250,000.

The performance goals for 2018 are set forth in the table below along with the level of achievement in 2018.

PERFORMANCE GOALS

Performance Measure	Performance Targets			Actual Performance
	Threshold	Target	Maximum	
Adjusted EPS – AWR Consolidated[(1)]	80% of Budget	100% of Budget	120% of Budget	101.8% of Budget; $1.72
Adjusted EPS – RU[(2)]	80% of Budget	100% of Budget	120% of Budget	102.4% of Budget; $1.30
Adjusted EPS – ASUS[(3)]	80% of Budget	100% of Budget	130% of Budget	105.0% of Budget; $0.42
Customer Complaints - RU[(4)]	≤ 0.16%	≤ 0.12%	≤ 0.08%	0.06% Met Maximum
Customer Complaint Standards – RU[(5)]	Rate of Complaints to the CAB ≤ 0.0275%	Rate of Complaints to the CAB ≤ 0.0225%	Rate of Complaints to the CAB ≤ 0.0175%	0.0134% Met Maximum
Capital Expenditures – RU[(6)]	≥ $96.5 million	≥ $110 million	≥ $120 million	$121.0 million Met Maximum
Supplier Diversity – RU[(7)]	≥ 24.5%	≥ 27.5%	≥ 30.5%	32.7% Met Maximum
Safety-Recordable Work Incidents – RU[(8)]	23	17	13	20
SOX Deficiencies – RU[(9)]	No MW, No SD and No more than 4 CDs	No MW, No SD and No more than 2 CDs	No MW, No SD and No CD	No MW, No SD and No CD Met Maximum
SOX Deficiencies – ASUS[(10)]	No MW, No SD and No more than 1 CD	No MW, No SD and No CD	N/A	No MW, No SD and No CD Met Target
Economic Value Added – ASUS[(11)]	≥ 100% of EV Goal	≥ 102.8% of EV Goal	≥ 105.6% of EV Goal	102.3% of EV Goal
Construction Revenues – ASUS[(12)]	≥ 90% of Budget	≥ 100% of Budget	≥ 110% of Budget	97.9% of Budget
Expense Optimization – ASUS [(13)]	≤ 101% of Budget	≤ 98% of Budget	≤ 96% of Budget	89.3% of Budget Met Maximum
Direct Construction Margin – ASUS[(14)]	≥ Budget less 100 basis points	≥ Budget	≥ Budget plus 100 basis points	350 basis points below budget
Direct Operating Margin – ASUS [(15)]	≥ Budget plus 100 basis points	≥ Budget plus 200 basis points	≥ Budget plus 300 basis points	490 basis points above budget Met Maximum
Safety - Recordable Work Incidents - ASUS [(16)]	13	10	7	9

(1) "Adjusted EPS - AWR Consolidated" means the Corporation's earnings per share for 2018 adjusted to remove 1) any write-offs associated with the CPUC's 2018 procurement audit of GSWC arising out of the settlement of claims approved by the CPUC in December 2011 related to the capital projects contracting matter and 2) any transaction fees and/or gain or loss on sale recognized in the financial statements in 2018 associated with a sale or restructuring of any of the Corporation's business units or the acquisition of any new businesses. In addition, performance targets were adjusted (i) downward at GSWC to reflect the final decision in the cost of capital proceeding for GSWC's water segment approved by the CPUC in March 2018, which resulted in a lower revenue requirement than anticipated, and (ii) upward at ASUS to reflect the effects of a tax benefit resulting from the Tax Cuts and Jobs Act enacted in December 2017.

(2) "Adjusted EPS - Regulated Utilities (RU or GSWC)" means the earnings per share of GSWC for 2018 adjusted to remove 1) any write-offs associated with the CPUC's 2018 procurement audit of GSWC arising out of the settlement of claims approved by the CPUC in December 2011 related to the capital projects contracting matter and 2) any transaction fees and/or gain or loss on sale recognized in the financial statements in 2018 associated with a sale or restructuring of any of the Corporation's business units or the acquisition of any new businesses. In addition, performance targets were adjusted downward to reflect the final decision in the cost of capital proceeding for GSWC's water segment approved by the CPUC in March 2018, which resulted in a lower revenue requirement than anticipated.

(3) "Adjusted EPS - ASUS" means the earnings per share of ASUS for 2018 adjusted to remove the general office allocation to ASUS related to any transaction fees and/or gain or loss on sale recognized in the financial statements in 2018 associated with a sale of any of the corporation's business units or the acquisition of any new businesses. In addition, performance targets were adjusted upward to reflect the effects of a tax benefit resulting from the Tax Cuts and Jobs Act enacted in December 2017.

(4) "Customer Complaints - RU" means the number of water quality, pressure and leak complaints received from water customers by GSWC divided by the average number of water customers served by GSWC during 2018.

(5) "Customer Complaint Standards - RU" means the number of complaints on all matters on GSWC received by the CPUC's Consumer Affairs Branch in 2018 divided by the average number of customers served by GSWC during 2018.

(6) "Capital Expenditures – RU" means the dollar amount of capital expenditures for 2018 for GSWC.

(7) "Supplier Diversity - RU" means the percentage reported by GSWC to the CPUC annually by March 1 in its General Order 156 Compliance Filing. The percentage is calculated by taking GSWC's total procurement dollars for the reporting period with CPUC qualified women-owned, minority-owned, disabled veteran-owned, and lesbian, gay, bisexual and transgender-owned business enterprises divided by GSWC's total procurement dollars (net of exclusions allowed under the General Order 156 Compliance Filing for the reporting period, such as payments for purchased water, purchased power, pump taxes, income taxes, franchise fees, and postage.)

(8) "Safety-Recordable Work Incidents - RU" means the number of work-related injuries and illnesses as reported on the OSHA Form 300 for GSWC.

(9) "SOX Deficiencies - RU" means the number of "control deficiencies" (each referred to as a "CD"), "significant deficiencies" (each referred to as an "SD") and "material weaknesses" (each referred to as an "MW") reported for GSWC in the independent auditor's report for 2018 pursuant to Section 404 of the Sarbanes-Oxley Act.

(10) "SOX Deficiencies - ASUS" means the number of CDs, SDs and MWs reported for ASUS in the independent auditor's report for 2018 pursuant to Section 404 of the Sarbanes-Oxley Act.

(11) "Economic Value Added – ASUS" means the percentage increase over the EV Goal – ASUS. EV Goal – ASUS means the economic value goal established for the combined amount of the government-approved monthly fixed fees (as annualized) during the compensation committee meeting on March 22, 2018 for (i) operations and maintenances and (ii) renewal and replacement for the military bases served as of December 31, 2018, as a result of price adjustments approved by a Contracting Officer on such military bases during 2018.

(12) "Construction Revenues – ASUS" means the total revenues from the construction segment of ASUS during 2018 for the military bases served by subsidiaries of ASUS excluding construction revenues of Fort Riley Utility Services, Inc.

(13) "Expense Optimization – ASUS" means the sum of other operations, maintenances, and administrative and general expenses of ASUS in 2018 (as reflected in the Corporation's 10-K) excluding (i) expenses of Fort Riley Utility Services, Inc., (ii) expenses of ASUS incurred in connection with any new base awards during 2018, (iii) general office expenses of GSWC approved by the CPUC to be allocated to ASUS, (iv) expenses incurred in connection with ASUS's new business development cost center, and (v) expenses included in the Corporation's Form 10-K for awards recorded under the 2018 short-term incentive program and the 2008 plan and the 2016 Stock Incentive Plans.

(14) "Direct Construction Margin – ASUS" means a percentage determined by dividing total construction revenues less ASUS construction costs (reported as expenses in the company's Form 10-K for 2018 filed with the SEC) by total construction revenues. Construction revenues and construction costs for this purpose shall exclude the construction revenues and construction costs of Fort Riley Utility Services, Inc. and any new base construction revenues and construction costs.

(15) "Direct Operating Margin – ASUS" means a percentage determined by dividing total operations and maintenance revenues less direct operations and maintenance expense by total operations and maintenance revenues as recorded in the company's Form 10-K. Total operations and maintenance revenues for this purpose exclude revenues of Fort Riley Utility Services, Inc. and any new base awards received in 2018. Direct operations and maintenance expense for this purpose includes other operation, administration and general, depreciation and amortization, maintenance and property and other taxes as reflected in the company's Form 10-K, but exclude (i) expenses of Fort Riley Utility Services, Inc. and any new base received during 2018, (ii) expenses of ASUS administration and centralized functions, (iii) general office expenses of GSWC approved by the CPUC to be allocated to ASUS, and (iv) property and other taxes allocable to construction activities.

(16) "Safety-Recordable Work Incidents – ASUS" means the number of work-related injuries and illnesses as reported on the OSHA Form 300s for ASUS other than for Fort Riley Utility Services, Inc.

Based on the performance measures and weighting of those performance measures determined by the compensation committee in the first quarter of the fiscal year, the objective bonus payout under short-term cash incentive awards made to Mr. Sprowls and Ms. Tang in 2018 was 118.9% of the target aggregate objective award. The objective bonus payout under short-term cash incentive awards made to Ms. Kruger and Mr. Scanlon in 2018 was 117.4% of the target aggregate objective award. The objective bonus payout under short-term cash incentive awards made to Mr. Cotton in 2018 was 111.5% of the target aggregate objective award. In each case, the objective bonus payout was less than the maximum objective bonus payable under each executive's award agreement.

The compensation committee recognizes that these objective measures do not encompass all the objectives of the company in a given year and may not fully reflect the company's performance depending on outside factors such as weather, water quality and water supply. As a result, the payout structure includes a limited discretionary bonus component based on a subjective assessment of the performance of each executive officer by the compensation committee after the end of the year, taking into account the assessment of each executive officer by the independent directors after considering the chief executive officer's assessment of the performance of each of the other executive officers during the year.

The discretionary bonus payout under short-term cash incentive awards made to Mr. Sprowls in 2018 was 160.0% of the target aggregate discretionary reward. The discretionary bonus payout under short-term cash incentive awards made to Ms. Tang, and Ms. Kruger in 2018 was 140.0% of the target aggregate discretionary award. The discretionary bonus payout under short-term cash incentive awards made to Mr. Cotton in 2018 was 150.0% of the target aggregate discretionary award. The discretionary bonus payout under short-term cash incentive awards made to Mr. Scanlon in 2018 was 105.0% of the target aggregate discretionary award.

You can find additional information on the short-term cash incentive plan and the amounts paid to the named executive officers in 2018 under the heading "How were certain of our executive officers compensated in 2018? Non-Equity Incentive Compensation."

Equity Awards

The compensation committee considered the following factors in determining the amount and type of equity awards to be made to the chief executive officer, senior vice presidents and vice presidents in 2018:

- the past practices of the committee in awarding equity,
- a desire to have a higher percentage of the compensation of the chief executive officer of the company consist of equity,
- a desire to incentivize the executives of ASUS to obtain additional profitable contracts for water and wastewater services on military bases and the optimization of expenses at ASUS, and
- the market study prepared by Pearl Meyer which indicated that the company's long-term incentives for its named executive officers were below market median compared to that of our current peer group and consisted of a mixture of time vested equity awards and performance stock awards.

The policy of the compensation committee is generally to grant all equity awards to executive officers through a combination of time-vested restricted stock units and performance stock awards in order to base a higher portion of compensation on achieving objective performance goals established by the compensation committee. Information regarding the objective performance goals can be found under the heading “How were certain of our executive officers compensated in 2018? - Equity Compensation” and “Grants of Plan-Based Awards in 2018.”

The compensation committee also concluded in January 2018 that 75% of the value of Mr. Sprowls’ and Mr. Cotton’s equity awards should be based upon the satisfaction of performance conditions and that approximately 50% of the value of equity awards to Ms. Tang, Ms. Kruger and Mr. Scanlon should be subject to the satisfaction of performance conditions. The compensation committee determined the amount of these equity awards based on the target equity value and determined the number of shares based on the average closing price of the company’s common shares for the thirty days ending on January 26, 2018. In March 2018, the compensation committee approved an additional award of 485 time-vested restricted stock units to Mr. Cotton to compensate him for winning new bases and the optimization of expenses at ASUS.

Each equity award granted in 2018 generally vests over a three-year period, provided that, with respect to performance stock awards the performance criteria have been satisfied at the end of the three-year performance period. The compensation committee believes that granting equity awards with three-year vesting periods creates a substantial retention incentive and encourages the named executive officers to focus on the company’s long-term business objectives and stock performance. A summary of exceptions to this general rule is set forth under the heading “How were certain of our executive officers compensated in 2018?-Equity Compensation.”

Each time-vested restricted stock unit and performance stock award accumulate dividend equivalent rights through the service or performance period and are paid only to the extent the employee vests in the underlying restricted stock unit or performance stock award. The compensation committee believes that granting stock units with dividend equivalent rights helps align the interests of the named executive officers with the interests of the shareholders of a utility holding company who, in many cases, purchase and retain the stock of the holding company based on the dividends that the holding company consistently pays. Dividends have also historically been an important component of our total shareholder return.

If the executive’s employment is terminated because of a change in control event (other than for cause, death or disability) or the executive terminates his or her employment for good reason, in each case, within two years following the change in control, each restricted stock unit and performance stock award will vest upon termination of employment free of restrictions. The compensation committee believes that the vesting of equity awards permits executives whose employment will be terminated as a result of the change in control to share in the value that they created for shareholders at the same time that the shareholders recognize that value upon a change in control. The performance period under the performance stock awards granted in 2016-2018 will also end and the performance awards will be paid out at target.

For our performance stock awards issued in 2016 for the period 2016 to 2018, the performance criteria applicable to the named executive officers in 2016 who were granted performance stock awards included total shareholder return relative to a defined peer group, GSWC’s water segment operating expense level, ASUS cumulative net earnings criteria and ASUS new base acquisition success rate. The compensation committee defined for each named executive officer the proportion of performance stock awards allocated to each performance criteria based on their role within the company. In March 2019, the compensation committee certified the company’s performance against the performance conditions for the 2016 performance stock award.

The table below sets forth the number of restricted stock units earned by each executive officer based upon satisfaction of the performance criteria set forth in each named executive officer's 2016 performance award agreement.

2016 PERFORMANCE AWARDS EARNED

Mix of Performance Criteria for Performance Award					
Executive	**Total Shareholder Return (1)**	**Aggregate GSWC Operating Expense Levels (2)**	**ASUS Cumulative Net Earnings (3)**	**New Base Acquisition Success Rate (4)**	**Total**
Robert J. Sprowls	25.0%	50.0%	25.0%	-	100.0%
Eva G. Tang	25.0%	50.0%	25.0%	-	100.0%
Denise L. Kruger	25.0%	75.0%	-	-	100.0%
James C. Cotton	25.0%	-	20.0%	55.0%	100.0%
Patrick R. Scanlon	25.0%	75.0%	-	-	100.0%

Percent of Shares Earned Relative to Target Shares						
Executive	**Total Shareholder Return (1)**	**Aggregate GSWC Operating Expense Levels (2)**	**ASUS Cumulative Net Earnings (3)**	**New Base Acquisition Success Rate (4)**	**Total**	**Number of Shares Earned**
Robert J. Sprowls	25.0%	50.0%	37.5%	-	112.5%	16,318
Eva G. Tang	25.0%	50.0%	37.5%	-	112.5%	1,633
Denise L. Kruger	25.0%	75.0%	-	-	100.0%	1,451
James C. Cotton	25.0%	-	30.0%	82.6%	137.6%	3,027
Patrick R. Scanlon	25.0%	75.0%	-	-	100.0%	1,040

(1) The company's total shareholder return in 2018 exceeded four members of its peer group resulting in a payout percentage of 100% of target. The total shareholder return criteria refer to total shareholder return during the performance period, including the reinvestment of dividends.

(2) GSWC's water segment operating expense level was $261.9 million resulting in a payout percentage of 100% of target. The aggregate operating expense level criteria refers to the cumulative operating expenses of GSWC's water segment as reported in the Form 10-Ks filed with the Securities and Exchange Commission for the period beginning January 1, 2016 and ending on the last day of the performance period, as adjusted to remove (i) water supply, depreciation and amortization and maintenance expenses as reported in the Form 10-Ks, (ii) public relations, legal and other professional services expenses of GSWC during the performance period applicable to defending GSWC from condemnation considerations and actions applicable to GSWC's water segment, (iii) any costs of defense, costs of settlement and judgments incurred in connection with claims arising from water quality incidences accruing during the performance period which are incurred in connection with claims determined by the compensation committee to be extraordinary events, (iv) write-offs associated with decisions or actions of the CPUC applicable to the financial statements in the performance period for the water segment, and (v) gross-up of certain surcharges authorized by the CPUC to recover previously incurred costs recorded pursuant to generally accepted accounting principles. In addition, GSWC's expense targets were adjusted to reflect (i) direct costs (lease termination & severance payments) incurred in connection with the disposition of GSWC's Ojai water system in June of 2017, as well as to reflect only incurring a partial year of Ojai-related expenses incurred in 2017 and none in 2018 due to the sale, and (ii) new accounting guidance, effective January 1, 2018 that changed the financial statement presentation of the non-service components of the company's pension and other postretirement benefit costs, which are no longer included in general and administrative expenses.

(3) ASUS cumulative net earnings were $41.5 million resulting in a payout percentage of 150% of target. The ASUS cumulative net earnings criteria refers to the cumulative net income of ASUS and its subsidiaries during the performance period. The performance targets were adjusted upward to reflect the tax benefits from the changes in tax law enacted in December 2017 and reflected in ASUS's actual results.

(4) New base acquisition success rate was 60.1% resulting in a payout percentage of 150.2% of target. New base acquisition success rate criteria refers to the percentage that results from dividing (1) the projected net income for 2016-2020 set forth in the targeted new base acquisition table for the targeted new bases awarded to ASUS during 2016-2018 by (2) the projected net income for 2016-2020 set forth in the targeted new base acquisition table for the targeted new bases awarded to all competitors during 2016-2018, including ASUS.

Tax Considerations

Under Section 162(m) of the Internal Revenue Code, as modified by the Tax Cuts and Jobs Act of 2017, we may generally only deduct up to $1,000,000 of the compensation paid to named executive officers, unless the compensation is performance-based, has been paid pursuant to a plan approved by shareholders and is payable pursuant to a written agreement in effect on November 2, 2017, which has not been subsequently materially modified. The company has not made any adjustments to its compensation programs as a result of the repeal of the performance-based exception in the Tax Cuts and Jobs Act of 2017.

As a result, the compensation committee expects to approve compensation of one or more executive officers that is not deductible under Section 162(m).

Retirement Benefits

We provide retirement benefits that we believe are comparable to the benefits provided by other members of our current peer group to attract, retain and motivate talented and experienced executives. Our retirement benefit programs are also intended to provide fair, equitable and reasonable compensation to our executive officers and to assist in the retention of our executive officers. The change in the pension value of each executive officer may, however, differ markedly from that of members of our current peer group due to differences in the age and time of service of the executive officers of the company compared to that of executives in comparable positions in members of our peer group. Changes in pension value also differ by executive due to differences in cash compensation, the age of the executive and the number of years of service with the company.

Total compensation of our named executive officers was impacted by changes in pension values under our pension plan and supplemental retirement plan. Mr. Sprowls' total compensation, decreased by $874,715 in 2018 including a decrease of $1,054,437 in the change in pension values compared to last year even though we made no changes in the terms of our pension plan or supplemental retirement plan, other than a change in July 2018 to update the mortality table used in calculating pension benefits. This change did not have a material impact on the calculation of the changes in pension values for 2018. Excluding the change in pension value, Mr. Sprowls' total compensation in 2018 increased by $179,722 due primarily to an increase in his "at-risk" related compensation (stock awards and objective short-term cash incentives).

The change in the pension values is also affected by changes in actuarial assumptions such as discount rates. The discount rates used to value pension benefits in 2018 increased by 67 basis points for the qualified pension plan and 68 basis points for the supplemental retirement plan as compared to the prior year. In contrast, the discount rates used to value pension benefits in 2017 decreased by 68 basis points for the qualified pension plan and 62 basis points for the supplemental retirement plan as compared to 2016. These changes in the discount rate also impacted the total compensation of our other named executive officers in 2018 and 2017.

We have no non-qualified deferred compensation arrangements.

Severance Arrangements

We do not have any employment agreements with any of our executive officers. We do, however, have change in control agreements with each of our executive officers which provide for certain benefits in the event of a change in control if either the executive officer's employment is terminated (other than for cause, death or disability) or the executive terminates employment for good reason, in each case within two years following the change in control event.

The compensation committee believes that the change in control agreements provide management with benefits comparable to those provided by other members of our peer group and other public utilities in California with whom we compete. The compensation committee also believes that the change in control agreements provide appropriate incentives to management to remain with the company in the event of a potential change in control.

Welfare and Other Benefits and Perquisites

We provide welfare and other benefits that we believe are comparable to the benefits provided by other members of our peer group and other perquisites that we believe are reasonable to attract, retain and motivate talented and experienced executives. Except as described under the heading "How were certain officers compensated in 2018?" and in this section, we provide the same benefits to executive officers as we provide to other employees of the company.

Stock Ownership Guidelines

We have requested each of our executive officers to own common shares, restricted stock units, and other equity equivalents, including common shares held in our 401(k) plan, equal in value to:

- 3.0 times his salary for Mr. Sprowls, as the chief executive officer,
- 1.5 times his or her salary for Ms. Tang, Ms. Kruger and Mr. Cotton who are senior vice presidents, and
- One time his annual salary for Mr. Scanlon, who is a vice president, and each of our other vice presidents.

We do not consider unexercised stock options to be equity equivalents of our common shares for this purpose. We consider these guidelines to have been satisfied once the minimum ownership requirements are met regardless of subsequent changes in the market value of our common shares. Mr. Sprowls, Ms. Tang, Ms. Kruger, Mr. Cotton, and Mr. Scanlon currently satisfy these guidelines.

The nominating and governance committee may suspend or adjust these guidelines if they determine that the required holding of any executive officer is unduly burdensome by reason of personal circumstances affecting an executive officer or is the result of recent significant changes in the compensation of the executive officer.

Compensation Committee Report

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on this review and discussion, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement and in our Form 10-K for the year ended December 31, 2018 by incorporation by reference to this proxy statement.

This report is submitted by:

James L. Anderson, Chair
Diana M. Bontá, Member
Anne M. Holloway, Member
James F. McNulty, Member

How were certain of our executive officers compensated in 2018?

We compensated each of our most highly compensated executive officers in 2018 as more particularly described below. Unless otherwise specified, the principal position of the executive officer is with American States Water Company. We also reimbursed each of these executive officers for expenses incurred in the performance of his or her duties as an executive officer.

SUMMARY COMPENSATION TABLE[(1)]

Name and Principal Position	Year	Salary ($)[(2)]	Bonus ($)[(3)]	Stock Awards ($)[(4)]	Non-Equity Incentive Plan Compen-sation ($)[(5)]	Change in Pension Value and Non-Qualified Deferred Compen-sation Earnings ($)[(6)]	All Other Compen-sation ($)[(7)]	Total ($)	Total Excluding Change in Pension Value and Non-Qualified Deferred Compen-sation Earnings ($)
Robert J. Sprowls President and Chief Executive Officer	2018	$771,635	$175,500	$986,385	$521,600	$532,453	$18,464	$3,006,037	$2,473,584
	2017	748,654	147,000	888,208	495,600	1,586,890	14,400	3,880,752	2,293,862
	2016	713,788	128,128	789,072	485,485	1,002,422	15,617	3,134,512	2,132,090
Eva G. Tang Senior Vice President-Finance, Chief Financial Officer, Corporate Secretary and Treasurer	2018	441,192	38,993	118,958	132,438	38,600	18,792	788,973	750,373
	2017	417,804	35,740	118,425	120,495	814,754	17,249	1,524,467	709,713
	2016	399,853	34,194	118,402	118,458	622,913	18,876	1,312,696	689,783
Denise L. Kruger Senior Vice President, Regulated Utilities of Golden State Water Company	2018	441,446	38,993	118,958	130,767	-	21,189	751,353	751,353
	2017	424,469	36,304	177,660	123,043	727,293	22,795	1,511,564	784,271
	2016	408,153	34,903	118,402	113,435	513,411	19,804	1,208,108	694,697
James C. Cotton Senior Vice President and Procurement Officer of American States Utility Services, Inc. and its subsidiaries	2018	343,369	53,148	163,991	158,027	97,600	16,385	832,520	734,920
	2017	327,000	54,054	138,169	120,557	282,343	14,819	936,942	654,599
	2016	310,200	46,800	138,108	125,736	139,037	15,877	775,758	636,721
Patrick R. Scanlon Vice President of Water Operations of Golden State Water Company	2018	337,546	18,455	85,240	82,519	110,459	21,084	655,303	544,844
	2017	320,934	16,310	114,484	77,391	701,428	15,089	1,245,636	544,208
	2016	313,181	17,248	84,864	71,344	449,882	14,589	951,108	501,226

(1) We did not grant any stock option awards during the past three years.
(2) This column sets forth the amount paid to each named executive officer during the calendar year based on 26 pay periods.
(3) This column sets forth the amounts paid to a named executive officer as a discretionary bonus for 2016, 2017 and 2018 under the short-term cash incentive plan.

(4) This column sets forth the aggregate grant date fair value of the stock awards on the date of grant computed in accordance with FASB ASC Topic 718. We provide information regarding the assumptions used in the calculation of the value of these awards in Note 13 to our financial statements for the year ended December 31, 2018. Stock awards consist of time vested restricted stock units and performance stock awards in the form of restricted stock units. For the performance stock awards granted in 2018 subject to performance conditions that have not been satisfied, we assumed that each executive officer would earn performance stock awards at the target level with a value of $739,789, $59,479, $59,479, $104,102 and $42,620 for Mr. Sprowls, Ms. Tang, Ms. Kruger, Mr. Cotton and Mr. Scanlon, respectively. If each executive officer was instead to earn performance stock awards for awards granted in 2018 at the maximum level, the grant date fair value of stock awards granted to Mr. Sprowls, Ms. Tang, Ms. Kruger, Mr. Cotton and Mr. Scanlon in 2018 would be $1,294,632, $104,075, $96,647, $229,014 and $69,244, respectively.

(5) Each named executive officer received non-equity incentive compensation based upon a percentage of base salary and satisfaction of performance criteria under the short-term cash incentive programs approved by the compensation committee.

(6) This column sets forth the sum of the change in the value of the pension plan and the supplemental retirement plan for each of the named executive officers. The change in the pension value under the Golden State Water Company Pension Plan, or pension plan, for 2018, was $30,400 and $7,455 for each of Mr. Sprowls and Mr. Cotton, respectively. The change in pension value plan for Ms. Kruger, Ms. Tang and Mr. Scanlon was negative. This decrease was due primarily to an increase in the discount rate used to calculate the pension value as a result of an increase in interest rates. The change in the pension value under the supplemental retirement plan for 2018 was $502,053, $91,376, $90,145 and $111,768 for each of Mr. Sprowls, Ms. Tang, Mr. Cotton and Mr. Scanlon, respectively. The change in the pension value under the supplemental retirement plan for Ms. Kruger was also negative. This decrease was due primarily to an increase in the discount rate used to calculate the pension value and the fact that she has reached the cap on the combined maximum percentage of compensation that may be used to calculate the amount of her supplemental retirement plan benefit. The aggregate change in the value of the pension plan and the supplemental retirement plan for Ms. Kruger was negative and, in accordance with SEC requirements, is reported as zero in the table. The aggregate decline for Ms. Kruger was $150,076. See the Pension Benefits Table for additional information regarding the retirement age assumptions used in making these calculations. We provide additional information regarding the assumptions used to calculate the change in pension value in Note 12 to our audited financial statements in our Form 10-K for the year ended December 31, 2018. We do not have any non-qualified deferred compensation plans.

(7) We provide information on the amount and types of benefits included under the heading "All Other Compensation" in the table below.

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The following table provides information regarding the amount and types of benefits included under the heading "All Other Compensation" in the previous table.

ALL OTHER COMPENSATION

Name	Year	Employer 401(k) Matching Contribution ($)	Insurance ($)[1]	Personal Use of Company Car ($)[2]	Other Compen-sation ($)[3]	Total All Other Compensation ($)
Robert J. Sprowls	2018	$12,150	$2,426	$3,719	$169	$18,464
	2017	11,925	262	2,035	178	14,400
	2016	11,925	293	1,844	1,555	15,617
Eva G. Tang	2018	12,150	1,065	5,408	169	18,792
	2017	11,925	262	4,884	178	17,249
	2016	11,925	293	4,398	2,260	18,876
Denise L. Kruger	2018	12,150	606	8,264	169	21,189
	2017	11,925	262	9,180	1,428	22,795
	2016	11,925	293	6,146	1,440	19,804
James C. Cotton	2018	12,150	519	3,047	669	16,385
	2017	11,925	262	2,454	178	14,819
	2016	11,925	293	2,237	1,422	15,877
Patrick R. Scanlon	2018	12,150	245	8,520	169	21,084
	2017	11,925	262	2,724	178	15,089
	2016	11,925	293	2,193	178	14,589

(1) We provide group term life insurance to each of our employees and their families. In the event of the death of an employee or a family member, his or her beneficiary is entitled to receive up to $50,000 under the group life insurance policy. We also provide each employee with $50,000 of accidental death and dismemberment insurance, which pays additional benefits if an employee suffers a covered accidental loss resulting in death, dismemberment or paralysis. The cost of $139 was equally allocated to each of our employees, including the executive officers. In addition, we provide our board members and executive officers a blanket accident insurance policy. The policy is intended to provide coverage for traveling on company business or on assignment for the benefit of our company. We allocated one–third of the premium of $6,000 (three-year premium) for coverage under the blanket accident insurance policy equally to our board members and executive officers. The cost was $106 per person in 2018, $105 in 2017 and $137 in 2016. In 2018, the company offered executive officers an opportunity to participate in a company-paid term life insurance program. Under this program, the officer's primary beneficiaries are entitled to a benefit in an amount equal to approximately two-times the officer's base salary in the event of the officer's death. The cost in 2018 for each of Mr. Sprowls, Ms. Tang, Ms. Kruger and Mr. Cotton was $2,181, $820, $361 and $274, respectively. Mr. Scanlon elected not to participate in the program.

(2) The value is based on an estimate of the aggregate incremental costs incurred by us for the personal use of company-provided automobiles by each of our named executive officers.

(3) We paid a holiday bonus of $169 in December to each of our active employees, including our named executive officers. In 2018, we paid Mr. Cotton $500 on his tenth anniversary with us pursuant to our anniversary grant program for all employees. In 2017, we paid Ms. Kruger $1,250 on her twenty-fifth anniversary with us pursuant to this program. In 2016, we paid Ms. Tang $1,000 on her twentieth anniversary with us pursuant to this program. We also reimbursed our CEO and senior vice presidents for the costs of participating in a physical examination. Mr. Sprowls, Ms. Tang, Ms. Kruger and Mr. Cotton received reimbursement of $1,377, $1,082, $1,262 and $1,244, respectively, for a physical examination in 2016.

Equity Compensation

During each of the last three years, we granted time-vested restricted stock units to each of our executive officers. Each of these time-vested restricted stock units is payable at the rate of 33% one year after the grant date, 33% two years after the grant date and 34% three years after the grant date. There are, however, some exceptions to this rule in certain circumstances following termination of employment for death, disability, change in control or retirement. Employment must be terminated within two years after the change in control (other than for cause) or the executive has terminated his or her employment for good reason within two years after the change in control in order for the change in control exception to apply. The executive must be at least 55 years of age and the sum of the employee's age and years of service must be equal to or greater than 75 at the time of retirement in order for the retirement exception to apply.

The time vested restricted stock award agreements were changed for grants made in 2018 in order to ensure consistency of the award agreements with the terms of the company's change in control agreements and to align the award agreements with market practices.

All the restricted stock unit awards granted to Mr. Sprowls, Ms. Tang, Ms. Kruger and Mr. Scanlon are vested pursuant to the Rule of 75. Mr. Sprowls, Ms. Tang, Ms. Kruger and Mr. Scanlon may not, however, receive any common shares in exchange for these restricted stock units prior to the date that the restricted stock unit vests absent retirement, death, disability or a termination of employment following a change in control event.

We awarded each of our executive officer's performance stock awards in the form of restricted stock units that vest at the rate of 33% one year after the grant date, 33% two years after the grant date and 34% three years after the grant date, subject to the satisfaction of the performance conditions set forth in the award agreement. All the performance stock awards granted to Mr. Sprowls, Ms. Tang, Ms. Kruger and Mr. Scanlon are vested pursuant to the Rule of 75, subject to the satisfaction of the performance conditions set forth in the award agreement. There are, however, some exceptions to this rule in certain circumstances following termination of employment for death, disability, change in control or retirement. Employment must be terminated within two years after the change in control (other than for cause) or the executive has terminated his or her employment for good reason within two years after the change in control in order for the change in control exception to apply. The executive must be at least 55 years of age and the sum of the employee's age and years of service must be equal to or greater than 75 at the time of retirement in order for the retirement exception to apply. The performance stock award agreements were changed for grants made in 2018 in order to ensure consistency of the award agreements with the terms of the company's change in control agreements and to align the award agreements with market practices.

For our performance stock awards issued in 2016 for the period 2016 to 2018, the performance criteria applicable to the named executive officers in 2016 who were granted performance stock awards included total shareholder return relative to a defined peer group, GSWC's water segment operating expense level, ASUS base acquisition rate and ASUS cumulative net earnings criteria. The compensation committee defined for each named executive officer the proportion of performance stock awards allocated to each performance criteria based on his or her role within the company. In March 2019, the compensation committee certified the company's performance against the performance conditions for the 2016 performance stock award. You can find information regarding the number of restricted stock units earned by each named executive officer based upon satisfaction of the performance criteria set forth in each named executive officer's 2016 performance award agreement under the heading "Compensation, Discussion and Analysis-Equity Awards."

We also awarded each of our executive officers restricted stock units in an amount equal to the quarterly cash dividends payable on our common shares times the number of restricted stock units or performance awards granted to the executive officer, but not yet payable pursuant to the terms of his or her restricted stock unit or performance stock award agreement divided by the closing price of our common shares on the dividend payment date as provided in the 2008 and 2016 plans, as applicable. We refer to these types of awards as dividend equivalent rights. Restricted stock units awarded pursuant to dividend equivalent rights vest and are payable on the same basis as the underlying restricted stock units on which these restricted stock units were earned.

You can find information regarding the performance conditions applicable to the awards granted in 2018 following the "Grants of Plan-Based Awards" table. You may also find information regarding the performance goals for each of these performance criteria for performance stock awards granted in 2018 under the heading "What plan-based awards did we make to these executive officers in 2018?"

Non-Equity Incentive Compensation

During the past three years, each of our executive officers received short-term cash incentive awards based upon achieving objective financial, operations and customer service performance goals set at target, threshold and maximum levels under our short-term cash incentive program. The objective bonus of each executive officer is determined based on payout percentages established by the compensation committee in March of each year for each performance measure. The performance measures and payout percentages vary depending upon whether the executive is an administrative officer of GSWC, an operations officer of GSWC or an officer of ASUS. Mr. Sprowls and Ms. Tang are administrative officers of GSWC. Ms. Kruger and Mr. Scanlon are operations officers of GSWC. Mr. Cotton is an officer of ASUS.

In addition, each executive officer is granted a discretionary bonus based upon a subjective assessment of the individual performance of each executive officer by the compensation committee. Eighty percent of the target aggregate bonus is based upon satisfaction of the performance goals described under the heading "Compensation Discussion and Analysis-Short-Term Cash Incentives" and 20% of the target aggregate bonus is based upon the subjective assessment of individual performance by the compensation committee. The amount of the bonus for 2018 based upon the objective performance criteria is set forth in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table. The amount of the discretionary bonus for 2018 is disclosed in the Bonus column in the Summary Compensation Table.

The compensation committee determined the target aggregate bonus for each executive officer as a percentage of the base salary of each executive officer and made changes in 2018 based on an assessment of each officer's compensation relative to market. Target bonuses for each officer, other than other officers promoted to an officer position during the year, were:

- 71.0% in 2018 and 70.0% in 2017 and 2016 for the president and chief executive officer,
- 31.5% in 2018 and 30.5% in 2017 and 2016 for the senior vice presidents other than the ASUS senior vice president,
- 51.5% in 2018 and 50.0% in 2017 and 2016 for the ASUS senior vice president, and
- 26.0% in 2018 and 25.0% in 2017 and 2016 for all other executives.

The payout percentages for the satisfaction of the performance criteria are set forth below. The sum of the actual payout percentages differs from the objective bonus total due to rounding.

PAYOUT PERCENTAGES FOR GSWC ADMINISTRATIVE AND GENERAL OFFICERS

Performance Measure	**Target Payout Percentage**			**Payout Percentage**
	Threshold	**Target**	**Maximum**	**Actual**
Adjusted EPS – AWR Consolidated	10.0%	20.0%	35.0%	21.3%
Adjusted EPS – RU	11.5%	20.0%	29.0%	21.1%
Adjusted EPS – ASUS	5.0%	10.0%	20.0%	11.7%
Customer Complaints – RU	1.5%	5.0%	7.0%	7.0%
Customer Complaint Standards – RU	1.5%	5.0%	7.0%	7.0%
Capital Expenditures – RU	4.0%	10.0%	15.0%	15.0%
SOX Deficiencies – RU	2.0%	5.0%	7.0%	7.0%
SOX Deficiencies – ASUS	2.0%	5.0%	N/A	5.0%
Objective Bonus Total	**37.5%**	**80.0%**	**120.0%**	**95.1%**

PAYOUT PERCENTAGES FOR GSWC OPERATIONS OFFICERS

	Target Payout Percentage			**Payout Percentage**
Performance Measure	**Threshold**	**Target**	**Maximum**	**Actual**
Adjusted EPS – RU	20.0%	40.0%	60.0%	42.4%
Customer Complaints – RU	2.0%	5.0%	7.0%	7.0%
Customer Complaint Standards – RU	2.0%	5.0%	7.0%	7.0%
Capital Expenditures – RU	7.5%	15.0%	20.0%	20.0%
Supplier Diversity – RU	2.0%	5.0%	7.0%	7.0%
Safety Recordable Work Incidents – RU	2.0%	5.0%	7.0%	3.5%
SOX Deficiencies – RU	2.0%	5.0%	7.0%	7.0%
Objective Bonus Total	**37.5%**	**80.0%**	**115.0%**	**93.9%**

PAYOUT PERCENTAGES FOR ASUS OPERATIONS OFFICERS

Performance Measure	Target Payout Percentage			Payout Percentage
	Threshold	Target	Maximum	Actual
Adjusted EPS – ASUS	15.0%	40.0%	70.0%	45.0%
Economic Value Added – ASUS	3.0%	6.0%	12.0%	5.5%
Construction Revenues – ASUS	3.0%	6.0%	12.0%	5.4%
Expense Optimization – ASUS	4.0%	6.0%	12.0%	12.0%
Direct Construction Margin	4.0%	6.5%	12.0%	0.0%
SOX Deficiencies – ASUS	2.0%	5.0%	N/A	5.0%
Direct Operating Margin – ASUS	4.0%	6.5%	12.0	12.0%
Safety Recordable Work Incidents – ASUS	2.5%	4.0%	5.0%	4.3%
Objective Bonus Total	**37.5%**	**80.0%**	**135.0%**	**89.2%**

The performance criteria for short-term cash incentive awards in 2017 and 2016 were based on similar types of performance criteria. The objective bonus payout under short-term cash incentive awards made to Mr. Sprowls and Ms. Tang in 2017 and 2016 was 94.4% and 97.0% as compared to the objective bonus target. The objective bonus payout under short-term cash incentive awards made to Ms. Kruger and Mr. Scanlon in 2017 and 2016 was 94.9% and 91.0% as compared to the objective bonus target. The objective bonus payout under short-term cash incentive awards made to Mr. Cotton in 2017 and 2016 was 73.6% and 80.6% as compared to the objective bonus target.

You can find additional information regarding our short-term cash incentive program under the heading “Compensation, Discussion and Analysis-Short-Term Cash Incentives.”

Other Compensation

We have a 401(k) plan under which employees may invest a percentage of their pay, up to a maximum amount prescribed by law. We provide matching contributions for each of our employees who participate in the plan of 100% up to the first 3% of eligible compensation deferred and 50% of the next 3% of eligible compensation deferred. Each of our executive officers is entitled to participate in this plan on the same basis as other employees, subject to the limits imposed by the Internal Revenue Code.

We provide all active full-time employees with medical, dental and vision benefits and life insurance coverage. All employees are required to pay 15% of the company’s premiums for medical, dental and vision benefits, except for certain employees at subsidiaries of ASUS. We pay all premiums for life insurance coverage in the amount of $50,000 for all employees and their families, plus additional benefits if any employee suffers a covered accidental loss resulting in death, dismemberment or paralysis, except for certain employees at subsidiaries of ASUS. We also have employee assistance, an anniversary award for reaching certain years of service and holiday bonus programs. Each of our executive officers is entitled to these benefits on the same basis as other employees. In addition, in 2018 we offered a term life insurance program to all officers of the company and its subsidiaries with premiums payable by the company. Under this program, the officer’s primary beneficiaries are entitled to a benefit in an amount equal to approximately two-times the officer’s base salary in the event of the officer’s death. All of the named executive officers, other than Mr. Scanlon, elected to participate in this program.

All active full-time employees at GSWC and ASUS and all active managers and exempt-employees at subsidiaries of ASUS, receive time off with pay for vacation, holiday and sick leave in accordance with company policy. Other employees at ASUS subsidiaries have different benefit packages. Executives receive vacation accrual based on the number of their continuous months of service, with 1 to 60 months of service earning 20 days per year of vacation; 61 to 120 months of continuous service earning 25 days of vacation per year and 121 or more months of continuous service earning 26 days of vacation per year. Executives receive sick leave benefits on the same basis as all other employees. Accrued vacation days that are not used in any year are carried over to the next year, provided that, effective January 1, 2012, the number of accrued and unused vacation days for each employee is subject to a cap equal to the total number of vacation days that such employee can accrue over a two-year period. When an employee reaches the cap, vacation accruals for the employee will cease until vacation days are used. When an employee's accrual rate increases because of increased service with the company, the employee's cap will increase accordingly. All employees are entitled to a cash payment, based on their then current salary, for any accrued, but unused, vacation days upon termination of employment as required by California law.

Each of our executive officers is entitled to the benefits of a travel insurance policy provided by the company and the use of a company-owned car. Upon termination of employment, each executive is entitled to purchase his or her company-owned car at the wholesale price for such car taking into account the mileage on the car.

Under the company's relocation policy, the company will reimburse executive officers for covered relocation expenses, subject to specified limits. Under the terms of this policy, an officer is required to reimburse us for any expenses paid by us if the officer resigns or is terminated for misconduct and/or poor performance within 24 months after having commenced work at a new assigned work location. The compensation committee believes that it is appropriate for us to claw back any relocation expenses paid to an officer under these circumstances. No relocation expenses were paid to any named executive officer during the past three years.

Under the terms of a senior executive health examination program, the chief executive officer and each of our senior vice presidents and vice presidents is entitled to be reimbursed up to $2,500 for the costs of an executive physical examination at least once every two years.

Total Compensation

The proportion of salary, bonus and non-equity incentive plan compensation to total compensation set forth in the Summary Compensation Table for Mr. Sprowls, Ms. Tang, Ms. Kruger, Mr. Cotton and Mr. Scanlon was 48.9%, 77.6%, 81.3%, 66.6% and 66.9% of total compensation, respectively. The proportion of equity compensation to total compensation set forth in the Summary Compensation Table for 2018 for Mr. Sprowls, Ms. Tang, Ms. Kruger, Mr. Scanlon and Mr. Cotton was 32.8%, 15.1%, 15.8%, 19.7% and 13.0% of total compensation, respectively. The compensation committee has not adopted any policy regarding the allocation of total compensation among the various components of total compensation.

What plan-based awards did we make to these executive officers in 2018?

We granted restricted stock units for both time-vested and performance-based equity awards to each of our named executive officers in 2018 as more particularly described below. We did not grant any options to executive officers in 2018. Each of the named executive officers also received a cash award under our short-term performance incentive plan based upon the satisfaction of certain performance criteria. The amount of this award is reflected in the Summary Compensation Table under the Non-Equity Incentive Compensation column and the award is described in detail under the non-equity incentive compensation section.

GRANTS OF PLAN-BASED AWARDS IN 2018

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards(1) Threshold (#)(2)	Target (#)(3)	Maximum (#)(4)	All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock Awards ($)(5)
Robert J.	1/30/18				4,432.0	$246,596
Sprowls	1/30/18	5,817.0	13,296.0	23,268.0		739,789
Eva G.	1/30/18				1,069.0	59,479
Tang	1/30/18	467.8	1,069.0	1,870.5		59,479
Denise L.	1/30/18				1,069.0	59,479
Kruger	1/30/18	467.8	1,069.0	1,737.0		59,479
James C.	1/30/18				623.0	34,664
Cotton	1/30/18	818.5	1,871.0	4,116.0		104,102
	3/9/18				485.0	25,225
Patrick R.	1/30/18				766.0	42,620
Scanlon	1/30/18	335.3	766.0	1,244.5		42,620

(1) These calculations assume that (i) the number of members of the company's peer group at the end of the performance period will be eight, (ii) the compensation committee will not make any downward adjustment in the amount of the award following the end of the performance period, and (iii) the executive officer will continue to be employed by or provide service to the company throughout the performance period or will be vested pursuant to the Rule of 75.

(2) This calculation assumes that the executive officer will achieve the minimum performance level established by the compensation committee for each performance condition set forth in the performance stock award granted to the executive officer in 2018. The performance required to achieve the total shareholder return minimum condition, the aggregate GSWC operating expense level minimum condition, the ASUS cumulative net earnings minimum condition and the ASUS new base acquisition success rate minimum condition in the performance stock awards granted in 2018 is 25%, 50%, 50% and 50% of the target performance level, respectively.

(3) This calculation assumes that the executive officer will achieve the target performance level established by the compensation committee for each performance condition set forth in the performance stock award granted to the executive officer in 2018.

(4) This calculation assumes that the executive officer will achieve the maximum performance level established by the compensation committee for each performance condition set forth in the performance stock award granted to the executive officer in 2018. The performance required to achieve the total shareholder return maximum condition, the aggregate GSWC's water segment operating expense level maximum condition, the ASUS cumulative net earnings maximum condition and ASUS new base acquisition success rate maximum condition is 200%, 150%, 200% and 250% of the target performance level, respectively.

(5) We provide information regarding the assumptions used to calculate the value of time-vested restricted stock units and performance stock granted on January 30, 2018 pursuant to the 2016 plan in Note 13 to our audited financial statements in our Form 10-K for the year ended December 31, 2018.

Mr. Sprowls and Ms. Tang can earn between 0% to 175.0%, Ms. Kruger and Mr. Scanlon can earn between 0% to 162.5%, and Mr. Cotton can earn between 0% to 220.0% of the target amount set forth in the 2018 executive's performance award depending on the company's performance against the performance goals during the performance period, which consist of the following metrics: 25% of the performance stock awards granted are based on the company's total shareholder return compared to the total shareholder return of the company's defined peer group, referred to as the total shareholder return criteria and 75% of the performance stock awards will be earned based upon the satisfaction of one or more of the following performance conditions: aggregate GSWC's water segment operating expense level criteria for GSWC operations and administrative officers, ASUS cumulative net earnings for GSWC administrative officers and ASUS officers and ASUS new base acquisition success rate for ASUS officers. The performance period commenced on January 1, 2018 and ends on December 31, 2021. The performance goals for Mr. Sprowls and Ms. Tang are based on the total shareholder return, the aggregate GSWC's water segment operating expense level and the ASUS cumulative net earnings criteria. The performance stock awards for Ms. Kruger and Mr. Scanlon are based on the total shareholder return criteria and the aggregate GSWC's water segment operating expense level criteria. The performance goals for Mr. Cotton are based on the total shareholder return, the ASUS cumulative net earnings and the ASUS new base acquisition success rate criteria.

We disclose in the tables set forth below the performance goals for each of these performance criteria for performance stock awards granted in 2018:

2018 PERFORMANCE TARGETS AND PAYOUT PERCENTAGES FOR TOTAL SHAREHOLDER RETURN[(1)]

Total Shareholder Return	Payout as a Percentage of Target
≥ 8 members of the Peer Group	200%
≥ 7 members of the Peer Group	175%
≥ 6 members of the Peer Group	150%
≥ 5 members of the Peer Group	125%
≥ 4 members of the Peer Group	100%
≥ 3 members of the Peer Group	75%
≥ 2 members of the Peer Group	50%
≥ 1 member of the Peer Group	25%

(1) The total shareholder return criteria refer to total shareholder return during the performance period, including the reinvestment of dividends. The defined peer group for this purpose consists of the following water utilities: American Water Works Company, Inc., Aqua America, Inc., Artesian Resources Corporation, California Water Service Group, Connecticut Water Service, Inc., Middlesex Water Company, SJW Group and The York Water Company. This table assumes that there will be eight members of the company's peer group at the end of the performance period. If the stock of any member of the peer group is no longer traded or suspended from trading on the last business day of the performance period, the peer group will not include that member and the payout percentages will be adjusted as provided in the performance stock award agreements.

2018 PERFORMANCE TARGETS AND PAYOUT PERCENTAGES FOR AGGREGATE GSWC OPERATING EXPENSE LEVEL[(1)]

Aggregate GSWC Operating Expense Level	Payout as a Percentage of Target
≤$270.1 million	150%
>$270.1 million and ≤$276.1 million	125%
>$276.1 million and ≤$296.1 million	100%
>$296.1 million and ≤$302.1 million	50%
>$302.1 million	0%

(1) The aggregate GSWC's water segment operating expense level criteria refers to the cumulative operating expenses of the water segment as reported in the Form 10-Ks filed with the Securities and Exchange Commission for the period

beginning January 1, 2018 and ending on the last day of the performance period, as adjusted to remove (i) water supply, depreciation and amortization and maintenance expenses as reported in the Form 10-Ks, (ii) public relations, legal and other professional services expenses of GSWC during the performance period applicable to defending GSWC from condemnation considerations and actions applicable to the water segment, (iii) any costs of defense, costs of settlement and judgments incurred in connection with claims arising from water quality incidences accruing during the performance period which are incurred in connection with claims determined by the compensation committee to be extraordinary events, (iv) write-offs associated with decisions or actions of the CPUC applicable to the financial statements in the performance period for the water segment, and (v) gross-up of certain surcharges authorized by the CPUC to recover previously incurred costs recorded pursuant to generally accepted accounting principles.

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2018 PERFORMANCE TARGETS AND PAYOUT PERCENTAGES FOR ASUS CUMULATIVE NET EARNINGS[(1)]

ASUS Cumulative Net Earnings	Payout as a Percentage of Target
≥$55.9 million	200%
≥$50.9 million and <$55.9 million	150%
≥$45.9 million and <$50.9 million	100%
≥$40.9 million and <$45.9 million	50%
<$40.9 million	0%

(1) The ASUS cumulative net earnings criteria refer to the cumulative net income of ASUS and its subsidiaries during the performance period. The compensation committee may at any time adjust this Performance Criteria as it deems equitable in recognition of changes arising out of the Tax Cut and Jobs Act of 2017 enacted on December 22, 2017.

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2018 PERFORMANCE TARGETS AND PAYOUT PERCENTAGES FOR ASUS NEW BASE ACQUISITION SUCCESS RATE[(1)]

New Base Acquisition Success Rate	Payout as a Percentage of Target
100%	250%
80%	200%
60%	150%
40%	100%[(2)]
20%	50%
0%	0%

(1) New base acquisition success rate refers to the percentage that results from dividing (1) the sum of the amounts of the contract awards announced by the Department of Defense for the Targeted New Bases set forth in the Target New Base Acquisition Table for the Targeted New Bases awarded to ASUS during 2018-2020 plus the sum of the Initial Joint Inventory Adjustment Difference for any targeted new bases (the numerator), by (2) the sum of the amount of contract awards announced by the Department of Defense during 2018-2020 for the Targeted New Bases set forth in the Targeted New Base acquisition table for the Targeted New Bases awarded to all competitors during 2018-2020, including ASUS, plus the sum of the Initial Joint Inventory Adjustment Difference for any Targeted New Bases (the denominator). The Initial Joint Inventory Adjustment Difference means, with respect to any Targeted New Base, the difference between (1) the amount of the contract award for each Targeted New Base at the time of the execution of the Bill of Sale for each Targeted New Base following a joint inventory of assets at such Targeted New Base, and (2) the amount of the contract award for the Targeted New Base announced by the Department of Defense at the time of the award.

(2) Payout will also be at target if the U.S government does not award at least two of the Targeted New Bases to all competitors, including ASUS, during the 2018-2020 performance period.

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What equity awards granted to these executive officers were outstanding at the end of the year?

Each named executive officer had the stock option, restricted stock unit and equity incentive plan awards outstanding at December 31, 2018 described in the table below. Certain of the equity awards made to Mr. Sprowls, Ms. Tang, Ms. Kruger and Mr. Scanlon have vested but are not yet payable. Information regarding the installment payment dates for these awards is provided in the footnotes following this table.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2018

	Option Awards			Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercis-able[1]	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units That Have Not Vested (#)	Market Value of Shares or Units That Have Not Vested ($)[2]	Equity Incentive Plan Awards; Number of Unearned Shares, Units or Rights or Other Rights That Have Not Vested[8]	Equity Incentive Plan Awards; Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested[2][8]
Robert J. Sprowls	13,038	$16.680	1/31/2020	[3]	[3]	50,861	$3,409,721
Eva G. Tang	5,016	$16.680	1/31/2020	[4]	[4]	4,318	$289,479
Denise L. Kruger	–	–	–	[5]	[5]	5,133	$344,116
James C. Cotton	–	–	–	2,103[7]	$140,985	9,505	$637,215
Patrick R. Scanlon	–	–	–	[6]	[6]	3,436	$230,349

(1) All unexercised options held by the named executive officers are exercisable.

(2) We determined the market value of restricted stock units and performance stock awards that have not vested by multiplying the number of unvested restricted stock units and unvested performance stock awards outstanding on December 31, 2018 by the closing price of our common shares on December 31, 2018, as reported on *The Wall Street Journal* website (www.online.wsj.com). The closing price of our common shares on December 31, 2018, as so reported, was $67.04.

(3) Restricted stock unit awards made to Mr. Sprowls in the amount of 9,789 shares have vested pursuant to the Rule of 75 but had not yet been paid out. At December 31, 2018, these awards had a market value of $656,255.

(4) Restricted stock unit awards made to Ms. Tang in the amount of 2,554 shares have vested pursuant to the Rule of 75 but had not yet been paid out. At December 31, 2018, these awards had a market value of $171,220.

(5) Restricted stock unit awards made to Ms. Kruger in the amount of 3,025 shares have vested pursuant to the Rule of 75 but had not yet been paid out. At December 31, 2018, these awards had a market value of $202,796.

(6) Restricted stock unit awards made to Mr. Scanlon in the amount of 2,065 shares have vested pursuant to the Rule of 75 but had not yet been paid out. At December 31, 2018, these awards had a market value of $138,438.

(7) Of this amount, 428 restricted stock units vested on January 24, 2019, 209 restricted stock units vested on January 29, 2019, 270 restricted stock units vested on January 30, 2019, 162 restricted stock units vested on March 8, 2019, 312 restricted stock units will vest on January 29, 2020, 279 restricted stock units will vest on January 30, 2020, 242 will vest on March 8, 2020, 113 will vest on January 29, 2021 and the remainder will vest on March 8, 2021.

(8) We assumed for the purpose of this disclosure that each executive officer would earn performance stock awards at the maximum level for the 2017 grant and 2018 grant. The value listed includes dividend equivalent rights granted as of December 31, 2018 on these awards. Although the performance stock awards granted to Mr. Sprowls, Ms. Tang, Ms. Kruger and Mr. Scanlon have vested pursuant to the Rule of 75, they have not been earned since the performance conditions have not been met.

Did any executive officers exercise options or have other stock awards vest in 2018?

Two of our named executive officers exercised stock options in 2018. All our named executive officers had outstanding awards of restricted stock units vest in 2018. No restricted stock vested in 2018.

OPTION EXERCISES AND STOCK VESTED IN 2018[1]

	Option Exercises		Stock Awards	
Name	**No. of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**No. of Shares Acquired on Vesting (#)[2]**	**Value Realized on Vesting ($)[1][2]**
Robert J. Sprowls	4,000	$198,360	32,259[3]	$1,513,834
Eva G. Tang	1,800	93,474	6,074[4]	219,361
Denise L. Kruger	–	–	6,287[5]	202,134
James C. Cotton	–	–	4,367	291,421
Patrick R. Scanlon	–	–	4,389[6]	144,081

(1) We determined the value realized on vesting of restricted stock units based on the closing market price of our common shares on the date of vesting as reported on *The Wall Street Journal* website (www.online.wsj.com).

(2) Includes performance stock award granted in 2016 which vested in 2018.

(3) Out of 32,259 shares fully vested in 2018, Mr. Sprowls acquired 5,066 common shares in February 2018, upon the payout of restricted stock units with a market value of $270,544 on the date of acquisition. Mr. Sprowls is entitled to acquire the remaining 27,193 common shares, which were not payable during 2018, because of the immediate vesting of these common shares under the rule of 75. Mr. Sprowls acquired 4,974 of these common shares on February 5, 2019 with a market value of $334,329 on the date of acquisition. On March 13, 2019, Mr. Sprowls acquired 17,403 of these common shares (together with 68 common shares with respect to dividends declared on January 29, 2019 pursuant to dividend equivalent rights on these shares) with an aggregate market value of $1,243,290 on the date of acquisition. Mr. Sprowls was entitled to acquire the remaining 4,816 common shares, which were not payable during 2018, because of the vesting of these common shares under the Rule of 75. Mr. Sprowls has the right to acquire 1,489 of these common shares within 30 days from January 29, 2020, 1,792 of these common shares within 30 days from January 30, 2020 and 1,535 of these common shares within 30 days from January 29, 2021 as a result of the previous vesting of the 4,816 restricted stock units, the value of which was not realized during 2018, plus common shares with respect to dividends declared after December 31, 2018 on these common shares pursuant to dividend equivalent rights on these shares until the date of acquisition of these shares.

(4) Out of 6,074 shares fully vested in 2018, Ms. Tang acquired 1,778 common shares in February 2018, upon the payout of restricted stock units with a market value of $94,941 on the date of acquisition. Ms. Tang is entitled to acquire the remaining 4,296 common shares, which were not payable during 2018, because of the immediate vesting of these common shares under the rule of 75. Ms. Tang acquired 1,347 of these common shares on February 5, 2019 with a market value of $90,541 on the date of acquisition. On March 13, 2019, Ms. Tang acquired 1,742 of these common shares (together with 7 common shares with respect to dividends declared on January 29, 2019 pursuant to dividend equivalent rights on these shares) with an aggregate market value of $124,420 on the date of acquisition. Ms. Tang was entitled to acquire the remaining 1,207 common shares, which were not payable during 2018, because of the vesting of these common shares under the Rule of 75. Ms. Tang has the right to acquire 359 of these common shares within 30 days from January 29, 2020, 478 of these common shares within 30 days from January 30, 2020 and 370 of these common shares within 30 days from January 29, 2021 as a result of the previous vesting of the 1,207 restricted stock units, the value of which was not realized during 2018, plus common shares with respect to dividends declared after December 31, 2018 on these common shares pursuant to dividend equivalent rights on these shares until the date of acquisition of these shares.

(5) Out of 6,287 shares fully vested in 2018, Ms. Kruger acquired 1,715 common shares in February 2018, upon the payout of restricted stock units with a market value of $91,581 on the date of acquisition. Ms. Kruger is entitled to acquire the remaining 4,572 common shares, which were not payable during 2018, because of the immediate vesting of these common shares under the rule of 75. Ms. Kruger acquired 1,579 of these common shares on February 5, 2019 with a market value of $106,117 on the date of acquisition. On March 13, 2019, Ms. Kruger acquired 1,548 of these common shares (together with 6 common shares with respect to dividends declared on January 29, 2019 pursuant to dividend equivalent rights on these shares) with an aggregate market value of $110,554 on the date of acquisition. Ms. Kruger is entitled to acquire the remaining 1,445 common shares, which were not payable during 2018, because of the vesting of these common shares under the Rule of 75. Ms. Kruger has the right to acquire 359 of these common shares within 30 days from January 29, 2020, 717 of these common shares within 30 days from January 30, 2020 and 369 of these common shares within 30 days from January 29, 2021 as a result of the previous vesting of the 1,445 restricted stock units, the value of which was not realized during 2018, plus common shares with respect to dividends declared after December 31, 2018 on these common shares pursuant to dividend equivalent rights on these shares until the date of acquisition of these shares.

(6) Out of 4,389 shares fully vested in 2018, Mr. Scanlon acquired 1,214 common shares in February 2018, upon the payout of restricted stock units with a market value of $64,842 on the date of acquisition. Mr. Scanlon is entitled to acquire the 3,175 remaining common shares, which were not payable during 2018, because of the vesting of these common shares under the Rule of 75. Mr. Scanlon acquired 1,081 of these common shares on February 5, 2019 with a market value of $72,661 on the date of acquisition. On March 13, 2019, Mr. Scanlon acquired 1,109 of these common shares (together with 4 common shares with respect to dividends declared on January 29, 2019 pursuant to dividend equivalent rights on these shares) with an aggregate market value of $79,239 on the date of acquisition. Mr. Scanlon is entitled to acquire the remaining 985 common shares, which were not payable during 2018, because of the vesting of these common shares under the Rule of 75. Mr. Scanlon has the right to acquire 257 of these common shares within 30 days from January 29, 2020, 462 of these common shares within 30 days from January 30, 2020 and 266 of these common shares within 30 days from January 29, 2021 as a result of the previous vesting of the 985 restricted stock units, the value of which was not realized during 2018, plus common shares with respect to dividends declared after December 31, 2018 on these common shares pursuant to dividend equivalent rights on these shares until the date of acquisition of these shares.

What pension benefits are payable to these executive officers?

We provide information in the table below reflecting the present value of the accumulated retirement benefits provided to each of our named executive officers as of December 31, 2018.

PENSION BENEFITS(1)

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit ($)(3)
Robert J. Sprowls(2)	Pension Plan	14	$ 833,253
	Supplemental Retirement Plan	14	5,525,494
Eva G. Tang(2)	Pension Plan	22	1,517,364
	Supplemental Retirement Plan	22	2,794,717
Denise L. Kruger	Pension Plan	26	1,360,406
	Supplemental Retirement Plan	26	2,056,648
James C. Cotton	Pension Plan	10	334,183
	Supplemental Retirement Plan	10	409,239
Patrick R. Scanlon(2)	Pension Plan	40	2,555,085
	Supplemental Retirement Plan	40	1,403,856

(1) The present value of the accumulated benefit for each of our named executive officers is based on the age when he or she would be eligible to retire with full benefits, which is at 62, except for Mr. Sprowls. The present value of the accumulated benefit is based on the age of 63 and 10 months for Mr. Sprowls, which is the age on which he is eligible to retire with full benefits. If we had assumed that each of them would retire at age 65, the normal retirement age under each of these plans, the present value of the accumulated benefit under the pension plan would instead be $771,256, $1,362,384, $1,124,769, $275,347 and $2,100,235 for Mr. Sprowls, Ms. Tang, Ms. Kruger, Mr. Cotton and Mr. Scanlon, respectively, and the present value of the accumulated benefit under the supplemental retirement plan would be $5,117,557, $2,512,673, $1,704,189, $337,828 and $1,156,018 for Mr. Sprowls, Ms. Tang, Ms. Kruger, Mr. Cotton and Mr. Scanlon, respectively.

(2) Mr. Sprowls and Mr. Scanlon were eligible to retire with an 18.3% and 4.2% reduction in benefits, respectively, at December 31, 2018. Ms. Tang became eligible to retire with full benefits in August 2017. If we had assumed that Mr. Sprowls and Mr. Scanlon retired at December 31, 2018, the present value of accumulated benefit for the pension plan would be $799,554 and $2,581,802, respectively, and the present value of accumulated benefit for the supplemental retirement plan would be $5,293,102 and $1,417,636, respectively.

(3) We used the same assumptions to calculate the change in pension value in Note 12 to our audited financial statements in our Form 10-K for the year ended December 31, 2018, except that retirement age is assumed to be the earliest date on which any of the executive officers, may retire under the plan without any benefit reduction due to age. We ignored for the purpose of this calculation what actuaries refer to as pre-retirement decrements.

Each of our named executive officers is a participant in the pension plan. This plan is a defined benefit pension plan available to all eligible employees hired prior to January 1, 2011 who are 21 years or older and have completed 1,000 hours of service in the first year of employment or in any subsequent plan year. The normal retirement benefit is 2% of an employee's five highest consecutive years' average earnings multiplied by the number of years of credited service, up to a maximum of 40 years, reduced by a percentage of primary social security benefits. Normal retirement age is 65. An employee must have five years of service in order to receive benefits under this plan. For purposes of this plan, compensation includes an executive's salary and all other reportable compensation received by the executive, except bonuses, the imputed value of the personal use of company-owned vehicles, unused vacation pay, severance pay and long-term incentive program payments, up to the maximum amount permitted under the Internal Revenue Code (which was $280,000 at January 1, 2019). Any employee hired after December 31, 2010 is eligible for participation in a defined contribution plan.

We also provide each of our named executive officers additional pension benefits under the supplemental retirement plan. Each executive has the right to receive a benefit under the terms of this plan equal to the sum of 2% of compensation for each year of service before 2006 plus 3% of compensation for each year of service after 2005, up to a combined maximum of 60% of compensation, less a percentage of primary social security benefits and amounts payable to the executive under the pension plan. For purposes of this plan, compensation includes all compensation included under the pension plan, cash incentive compensation and dividend equivalent rights on options granted prior to 2006. For participants who were employed by the company on January 1, 2006, the benefit is the greater of the benefit under the formula described in the previous sentence or the benefit under the previous formula. Under the previous formula, each executive was entitled to receive a benefit equal to the sum of 2% of compensation for each year of service, up to a maximum of 40 years, less a percentage of primary social security benefits and amounts payable to the executive under the pension plan.

Under the terms of each of the plans, an employee who is eligible may retire and receive benefits at age 55, with a 50% reduction in his or her benefits for early commencement. An employee who retires after age 55 but before age 62 will also receive benefits reduced for early commencement. The amount of the reduction will depend upon the employee's age at the date payment of his or her benefits begins and whether the sum of his or her age and completed years of service, as of the date of his or her termination, is equal to or greater than 80. An employee who retires at or after age 62 but before age 65 will also receive benefits reduced for early commencement based on his or her age at retirement unless the sum of his or her age and completed years of service, as of the date of his or her termination, is equal to or greater than 80, in which case the employee will be entitled to full, unreduced benefits. Under the terms of the supplemental retirement plan, an employee who is vested will begin receiving benefits within 60 days following the later of separation from service, age 55 or an age over 55 previously elected by the employee, subject to any delay required under Section 409A of the Internal Revenue Code.

We did not make any payments to any named executive officer under either of our pension plans during the last year.

We also provide a Medicare supplement insurance policy for each employee who we hired prior to February 1, 1995 and his or her spouse at or after age 65. Each of our named executive officers has a right to this benefit after reaching age 65, other than Mr. Sprowls, Ms. Tang and Mr. Cotton, who were hired after February 1, 1995.

Do any executive officers participate in a non-qualified deferred compensation plan?

None of our named executive officers are participants in a defined contribution or non-qualified deferred compensation plan, other than our 401(k) Investment Incentive Program, which is a tax-qualified defined contribution plan available to our employees generally, and the supplemental retirement plan described above.

What are the terms of severance arrangements with executive officers?

Each of our named executive officers is entitled to receive benefits under the terms of our pension plan described under the heading "What pension benefits are payable to these executive officers?" and a cash payment for any accrued, but unpaid vacation as required by California law described under the heading "How were certain of our executive officers compensated in 2018? – All Other Compensation" following termination of employment.

We do not have any severance arrangements with our named executive officers, other than the change in control agreements described below.

What are the terms of change in control agreements with executive officers?

Each of our executive officers is a party to a change in control agreement which provides for certain benefits in the event of a change in control of the company if the executive officer's employment is terminated (other than for cause, death or disability) or the executive terminates employment for good reason, in each case, within two years following the change in control event. A change in control under these agreements will generally include:

- any sale or other change in ownership of substantially all our assets, unless our business is continued by another entity in which the holders of our voting securities immediately before the sale or other change own more than 70% of the continuing entity's voting securities immediately after the sale or other change,
- any reorganization or merger, unless the holders of our voting securities immediately before the event own more than 70% of the continuing entity's securities immediately after the reorganization or merger and at least a majority of the members of the board of directors of the surviving entity were members of our board of directors at the time of execution of the agreement or approval by our board of directors,
- an acquisition by any person, entity or group acting in concert of more than 50% of our voting securities, unless the holders of our voting securities immediately before the acquisition own more than 70% of the acquirer's voting securities immediately after the acquisition,
- a tender offer or exchange offer by any person, entity or group which results in such person, entity or group owning more than 25% of our voting securities, unless the tender offer is made by the company or any of its subsidiaries or approved by a majority of the members of our board of directors who were in office at the beginning of the 12-month period preceding the commencement of the tender offer, or
- a change of one-half or more of the members of our board of directors within a 12-month period, unless at least two-thirds of the directors then still in office at the beginning of the 12-month period approved the election or nomination for election of the new directors.

The company must require any successor to the company to assume all change in control agreements.

Each executive may terminate his or her employment for good reason if within two years after the change in control any of the following occur and the company is unable to remedy the condition within a 20-day cure period:

- the executive is assigned duties inconsistent in any respect with the executive's position, authority, duties or responsibilities (or any diminution thereof) or the executive is not re-appointed to the same position,

- the executive's salary or benefits are reduced (including the elimination of any cash incentive or other cash bonus plan or any equity incentive or other equity-based compensation plan, without providing adequate substitutes, any modification thereof that substantially diminishes the executive's salary, cash or equity compensation or the substantial diminishment of fringe benefits),
- the executive is located at an office that increases the distance from the executive's home by more than 35 miles, or
- any successor to all or substantially all the business and/or assets of the company does not assume or agree to perform the change in control agreements.

In addition, all unvested options and restricted stock units (including performance stock awards granted in the form of restricted stock units if the performance conditions have been satisfied) will vest immediately prior to the date on which the executive's employment is terminated. For each of the executive officers, a change in control will occur under the same circumstances described in his or her change in control agreement.

Under the terms of the change in control agreements, each named executive officer is entitled to an amount equal to 2.99 times the sum of the executive's annual base salary at the highest rate in effect in any year of the three calendar years immediately preceding the date of termination of employment, including the year in which employment is terminated, plus any payments to be made to the executive pursuant to any cash performance incentive plan with respect to the year of termination of employment, assuming performance at the target level.

Each of the executives is also entitled to be paid (a) a cash lump sum within 10 days of the date of termination of employment of the executive's base salary and accrued but unpaid vacation pay through such date, and (b) cash at the end of each four month period during the twelve months immediately following the date of termination of employment, an amount equal to the sum of the excess of the accrued benefits under the pension plan and the supplemental retirement plan if the executive was credited with an additional three years of credited service over the actuarial equivalent of the executive's vested benefits under the pension plan, such sum divided by three, provided that the executive has not breached his or her one-year non-competition and non-solicitation agreement with the company. Each of these executives is also entitled to coverage under our health and welfare benefit plans for a period of two years after termination of employment (three years for Mr. Sprowls and Ms. Tang).

If it is determined that any amount payable to any executive under a change in control agreement would give rise to an excise tax under Section 4999 of the Internal Revenue Code, then the amount payable to the executive will be reduced to the extent necessary so that no portion of the payments will be subject to the excise tax, provided that such reduction will only be made if it would result in the executive retaining a greater amount of payments on an after-tax basis (after taking into account federal, state and local income, excise and payroll taxes).

If we are unable to deduct any payments we make under a change in control agreement due to the limitations imposed by Section 162(m) of the Internal Revenue Code, we will defer such payments to the extent necessary to enable us to deduct the payments. Each executive will be entitled to interest on any deferred payments at the applicable federal tax rate under the Internal Revenue Code (which changes monthly). Under Section 162(m) of the Internal Revenue Code, we generally may not deduct for federal income tax purposes annual compensation more than $1,000,000 paid to any named executive officer, other than compensation that qualifies as "performance-based" under a contract in effect on November 2, 2017, which is not materially modified thereafter.

In addition, if we are required to make any payment under a change in control agreement which would be subject to Section 409A of the Internal Revenue Code, we will defer these payments until the later of six months following the date of termination of the executive's employment and the payment or commencement date specified in the change in control agreement.

What do we estimate we will pay each of our named executive officers in the event his or her employment is terminated because of a change in control?

Assuming that the employment of each of our named executives was terminated on December 31, 2018, a change in control occurred on that date under the change in control agreements and the 2008 and 2016 plans and based on the assumptions set forth in the footnotes below, we estimate that we would have made the following payments to our named executive officers:

CHANGE IN CONTROL BENEFITS[(1)]

Payments and Benefits	Robert J. Sprowls	Eva G. Tang	Denise L. Kruger	James C. Cotton	Patrick R. Scanlon
Payments					
Base Salary Benefit	$2,309,775	$1,321,879	$1,321,879	$1,028,560	$1,010,620
Bonus Benefit	1,639,940	416,392	416,393	529,708	262,761
Pension Plan and Supplemental Retirement Plan Benefits[(2)]	1,331,594	143,238	–	203,121	–
Benefits					
Welfare and Fringe Benefits[(3)]	104,375	76,853	62,531	64,905	44,803
Purchase of Automobile Benefit[(4)]	6,513	7,664	7,336	7,087	6,545
Restricted Stock Units Benefit[(5)]	656,255	171,220	202,796	140,985	138,438
Performance Stock Awards[(6)]	1,967,299	167,130	214,282	292,564	143,384
Total	$8,015,751[(7)]	$2,304,376[(7)]	$2,225,217[(7)]	$2,266,930	$1,606,551

(1) We have assumed, for purposes of preparing this table, that we make all change in control payments to each continuing named executive officer in July 2019. We have excluded for the purpose of this calculation, amounts paid to each named executive officer for accrued, but unpaid base salary and vacation pay payable within ten days after termination of employment.

(2) In calculating the single sum actuarial equivalent, we used an interest rate equal to 4.14% and the mortality table named and described in detail in Section A.1 of the pension plan, after reduction, if any, of the benefit using the "Regular Factors" under Section A.4 of the pension plan, and each continuing executive officer's age at December 31, 2018, less a percentage of primary social security benefits. Ms. Kruger and Mr. Scanlon have already accrued the maximum percentage that may be accrued under the supplemental retirement plan so a change in control will have no impact on her or his supplemental retirement plan benefits.

(3) Welfare benefits include (i) 85% of dental, medical and vision insurance premiums paid by the company for each named executive officer, under the insurance plans currently offered by the company, (ii) each named executive officer's pro rata share of the group term life insurance and accidental death and dismemberment premiums, (iii) reimbursement of health club dues for each named executive officer, up to a maximum of $1,800 a year, (iv) reimbursement for a health examination for each named executive officer, up to a maximum of $2,500 biannually, and (v) executive life insurance policy for each of the named executive officers except Mr. Scanlon. Welfare benefit amounts were calculated based on these benefits for a period of three years after termination of employment for Mr. Sprowls and Ms. Tang and two years after termination of employment for each of the other named executive officers. We assumed, for the purposes of this table, that each executive officer would be reimbursed up to the maximum amount for health club benefits and biannual health examination.

(4) We estimated the value of this benefit as the difference between (i) the wholesale value of the company car which the named executive officer has the right to purchase at the wholesale value, and (ii) the retail value of the car as shown in a national auto research publication.

(5) We measured the fair value of restricted stock units which were not converted to shares at December 31, 2018 assuming the price of our common shares on the date of each executive's termination of employment was $67.04.

(6) We measured the fair value of 2017 and 2018 performance stock award units which were not converted to shares as of December 31, 2018 assuming the price of our common shares on the date of each executive's termination of employment was

$67.04. We assumed that the performance awards for both 2017 and 2018 grants would be paid out at target with no adjustment to the shortened performance period.

(7) This executive's payment will be reduced to the extent necessary so that no portion of such payment will be subject to excise tax under Section 4999 of the Internal Revenue Code, provided that the reduction will result in the executive retaining a greater amount of the payment on an after-tax basis (after taking into account federal, state and local income taxes and payroll taxes).

What is our CEO to median employee pay ratio?

We estimated the median of the 2018 total annual compensation of our employees, excluding Mr. Sprowls, to be $76,371, using the same median employee identified in 2017. This median employee's total compensation for 2017 was $115,010 compared to $76,371 in 2018, a difference of $38,639. This decrease was driven by a change in the pension value in 2018 compared to 2017 due primarily to an increase in the discount rate used in calculating the change in pension value.

The 2018 total annual compensation of Mr. Sprowls set forth on the Summary Compensation Table is $3,006,037. The ratio of the total annual compensation of Mr. Sprowls to the estimated total annual compensation of our median employee in 2018 was 39.4 to 1. We believe this pay ratio is a reasonable estimate calculated in a manner consistent with SEC rules. If we eliminated the actuarial change in pension value from our calculation of both Mr. Sprowls' total annual compensation and median employee's total annual compensation, the ratio of the total annual compensation of Mr. Sprowls to the estimated total annual compensation of our median employee would be 32.4 to 1.

As permitted by SEC rules, we used the same median employee because there have been no changes in our employee population or employee compensation that we reasonably believe would result in a significant change to this pay ratio disclosure. We selected our median employee based on the annual gross wages reflected in our payroll records in 2017 for each of our employees on December 31, 2017. We then computed the median employee's 2018 total annual compensation using the same methodology used in calculating Mr. Sprowls' total annual compensation in the Summary Compensation Table, including the calculation of the actuarial change in pension value. We did not annualize the compensation of employees who did not work a full year or make any other adjustments to our calculation of total annual compensation.

Because the SEC rules for identifying the median employee and calculating the pay ratio based on that employee's total annual compensation allow companies to use a variety of methodologies, to apply certain exclusions and to make reasonable estimates and assumptions that reflect their employee populations and compensation practices, the pay ratio reported by other companies may not be comparable to our pay ratio, as other companies may utilize different methodologies, exclusions, estimates and assumptions in calculating their pay ratios. These companies may also operate in different industries and different geographic locations, be of a different size, have different revenues, earnings and market capitalization and be subject to different regulation than the company.

PROPOSAL 2: ADVISORY VOTE TO APPROVE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

This proposal to approve the compensation of our named executive officers, commonly referred to as a "say-on-pay" proposal, is provided pursuant to section 14A of the Securities Exchange Act of 1934 and gives our shareholders the opportunity to express their views on the compensation of our named executive officers as described in this proxy statement. This vote is not binding and is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, we will ask our shareholders to vote "**FOR**" the following resolution at the 2019 annual meeting:

> RESOLVED, that the compensation of our named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis, compensation tables and related material disclosed in this proxy statement, is hereby APPROVED.

Target aggregate total direct compensation of Mr. Sprowls increased modestly in 2018, while the target aggregate total direct compensation of the other named executive officers was somewhat lower. Actual aggregate total direct compensation of the executive officers of the company (using 2018 salaries, bonuses and the value of 2018 equity grants) was at the market median determined by Pearl Meyer based on 2018 proxy statement information for members of the current peer group approved by the compensation committee, blended with data obtained by Pearl Meyer from four industry surveys.

Based upon an assessment of the realizable direct compensation of our CEO compared to CEOs in our current peer group, our CEO's realizable compensation rank was at the 55th and 64th percentile rank when assessing 2015 to 2017 pay and performance and 2016 to 2018 pay and performance, respectively. Our total shareholder return rank (including reinvestment dividends) was, in both cases, at the 73rd percentile. As a result, our CEO pay rank remains at or below our total shareholder return rank. Further information regarding the alignment of our CEO's pay with total shareholder return is provided under "Compensation Discussion and Analysis - Alignment of CEO Pay with Performance."

In recent years, the compensation committee has made an increasing percentage of the total compensation of an executive officer in the form of equity awards. Approximately 75%, 50%, 50%, 75% and 50% of the value of all stock awards made to Mr. Sprowls, Ms. Tang, Ms. Kruger, Mr. Cotton and Mr. Scanlon, respectively, in 2018 were dependent upon the satisfaction of performance criteria over a three-year performance period. The remainder of the stock awards were time vesting awards, which vest over a three-year period.

Approximately 97.3% of the votes cast for or against our "say-on-pay" proposal in 2018 were cast in favor of the compensation of our named executive officers, as disclosed pursuant to the compensation disclosure rules of the SEC, including the compensation discussion and analysis, compensation tables and related materials disclosed in our 2018 proxy statement. Abstentions were not counted as a vote either for or against this proposal.

This "say-on-pay" vote is advisory, and therefore not binding on us, the compensation committee or the board. However, the board and the compensation committee intend to review the voting results and will seek to determine the causes of a negative vote, if significant. Shareholders who wish to communicate with the board of directors or management regarding our executive compensation program or other matters may do so in the manner described under "Governance of the Company- What is the process for shareholders and other interested persons to send communications to our board?"

If no voting specification is made on a properly returned or voted proxy card, the named proxies will vote "**FOR**" this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.

PROPOSAL 3: RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit and finance committee has appointed PricewaterhouseCoopers LLP, or PwC, as our independent registered public accounting firm for the year ended December 31, 2019, subject to reconsideration if our shareholders do not ratify this appointment.

PwC has served as our registered public accounting firm since 2002 and reports directly to the audit and finance committee. In determining whether to reappoint PwC as our registered public accounting firm in January 2018, the audit and finance committee considered many factors, including:

- the quality of its discussions with the audit and finance committee and the board and the performance of the lead audit partner and the audit team assigned to our account;
- the potential impact of changing our registered public accounting firm;
- the overall strength and reputation of the firm based upon, among other things, PwC's most recent Public Company Accounting Oversight Board inspection report and the results of "peer review" and self-review examinations;
- the results of management's and the audit and finance committee's annual evaluations of the qualifications, performance and independence of PwC;
- PwC's independence program and its processes for maintaining independence; and
- the appropriateness of PwC's fees on an absolute basis and as compared to its peer firms.

We expect representatives of PwC to attend the 2019 annual meeting. They will have an opportunity to make a statement at the 2019 annual meeting, if they desire to do so. They will also be available to respond to appropriate questions from you if you attend the 2019 annual meeting.

What are the audit and finance committee's pre-approval policies and procedures?

The audit and finance committee has adopted a policy statement regarding the approval of audit, audit-related, tax and other services provided by our registered public accounting firm. This policy statement specifies guidelines and procedures we will use to assist us in maintaining the independence of our registered public accounting firm and complying with Sections 201 and 202 of the Sarbanes-Oxley Act of 2002 and the related rules and regulations promulgated by the SEC. The audit and finance committee administers this policy statement. The policy statement established the four categories of permitted services described below, the reporting procedure for each category of permitted services, prohibited services and the pre-approval process we use for each category of permitted service.

The audit and finance committee has reviewed the advisability and acceptability of utilizing our external auditor, PwC, for non-audit services. In reviewing this matter, the committee focused on the ability of our external auditor to maintain its independence. Based on input from management and the committee's review of procedures established by PwC, the committee finds that it is both advisable and acceptable to employ our external auditor for certain limited non-audit services from time-to-time.

Principal Accounting Fees and Services

The aggregate fees billed or fees we expect to be billed to us by PwC for the years ended December 31, 2018 and 2017 are as follows:

Type of Fee	2018	2017
Audit Fees	$1,388,390	$1,421,140
Tax Fees	35,000	33,500
All Other Fees	67,700	30,000
Total	$1,491,090	$1,484,640

Audit Fees

Audit fees represent the aggregate fees billed, or fees we expect to be billed, for professional services rendered in connection with the audit of our annual financial statements (including the audit of internal control over financial reporting), a review of our financial statements included in our Form 10-Qs filed with the SEC, audits of the company's subsidiaries and other services normally provided by our accountants in connection with statutory or regulatory filings and engagements. The audit fees also include out-of-pocket expenses incurred in providing audit services.

Audit-Related Fees

Audit-related fees represent the aggregate fees billed, or fees we expect to be billed, for assurance and related services that were reasonably related to the performance of the audit or review of our financial statements and are not included in audit fees. On a quarterly basis, the audit and finance committee pre-approves a specific quarterly limit on the amount of audit-related fees for non-audit services. Management is also required to report the specific engagements to the committee and obtain specific pre-approval from the committee. We did not incur any audit-related fees in 2017 or 2018.

Tax Fees

Tax fees represent the aggregate fees billed, or fees we expect to be billed, for professional services for tax compliance, tax advice and tax planning, including tax return review, review of tax laws and regulations and cases and other support in connection with complying with federal and state tax reporting and payment requirements. All tax fees have been pre-approved by the audit and finance committee.

All Other Fees

We incurred fees to PwC in 2017 for reviewing our MSCI/ESG rating and related reports associated with environmental, social and governance ratings. In 2018, we incurred fees to the advisory branch of PwC for assessing our finance and accounting organization. These fees were pre-approved by the audit and finance committee.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

OTHER MATTERS

Our management knows of no business, other than that mentioned above, to be transacted at the 2019 annual meeting. Unless otherwise instructed, the named proxies intend to vote in accordance with their judgment on any other matter that may properly come before the 2019 annual meeting.

OBTAINING ADDITIONAL INFORMATION FROM US

This proxy statement incorporates by reference certain information from our financial statement footnotes in our Form 10-K for the year ended December 31, 2018. We undertake, on written or oral request, to provide you (or a beneficial owner of our securities entitled to vote), without charge, a copy of our annual report on Form 10-K for the year ended December 31, 2018 as filed with the SEC, including our financial statements and schedules. You should address your requests to the corporate secretary at American States Water Company, 630 East Foothill Boulevard, San Dimas, California 91773, telephone number 909-394-3600.

Unless we have been instructed otherwise, shareholders sharing the same address are receiving, as applicable, Notices in a single envelope or only one copy of our proxy statement. If we are sending a Notice, the envelope contains a unique control number that each shareholder may use to access our proxy materials and vote. If we are mailing a paper copy of our proxy materials, each shareholder at the shared address receives a separate proxy card. We will, however, deliver promptly a separate copy of this proxy statement to a shareholder at a shared address to which a single copy of this proxy statement was delivered, upon written or oral request. You may direct this request to us at the address or telephone number listed above. If you share an address with another shareholder and wish to receive a single copy of this proxy statement, instead of multiple copies, you may direct this request to us at the address or telephone number listed above.

If you received our proxy materials in the U.S. mail and would like to reduce the costs incurred by us in mailing proxy materials to you, you can consent to receiving future proxy materials, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions on your proxy card to vote by using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

You may visit our website at http://www.aswater.com to view the charters of our audit and finance committee, nominating and governance committee and compensation committee. We also provide a copy of our code of conduct, guidelines on significant governance issues and social responsibility report on this website. You can find this information on our website by clicking on “Investors” and then clicking on “Governance.”

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ATTACHMENT E

American States
Water Company

630 East Foothill Boulevard, San Dimas, California 91773
909-394-3600 www.aswater.com

ATTACHMENT F

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, 2019

or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from to

Commission file 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

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading symbol	Name of each exchange on which registered
Common shares	**AWR**	**New York Stock Exchange**

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 ☐ Emerging growth ☐

Golden State Water Company

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

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 1, 2019, the number of Common Shares outstanding of American States Water Company was 36,839,301 shares. As of November 1, 2019, all of the 165 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.

AMERICAN STATES WATER COMPANY
and
GOLDEN STATE WATER COMPANY
FORM 10-Q

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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;
- the potential of strict liability for damages caused by GSWC's property or equipment, even if GSWC was not negligent in the operation and maintenance of that property or equipment, under a doctrine known as inverse condemnation;
- the impact of storms, high winds, earthquakes, floods, mudslides, drought, wildfires and similar natural disasters, contamination or acts of terrorism or vandalism, that affect water quality and/or supply, 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 program authorized by the CPUC and implemented by the electric utilities that serve GSWC facilities throughout the

state and our ability to get full cost recovery in rates for costs incurred in preparation of and during a Public Safety Power Shutdown event;

- liabilities of GSWC for wildfires caused by GSWC's electrical equipment if GSWC is unable to recover the costs and expenses associated with such liabilities from insurance or from ratepayers on a timely basis, if at all;
- penalties which may be assessed by the CPUC if GSWC shuts down power to its customers during high threat conditions under the Public Safety Power Shutdown program authorized by the CPUC if the CPUC determines that the shutdown was not reasonably necessary or excessive in the circumstance;
- costs incurred, and the ability to recover such costs from customers, associated with service disruptions as the result of a Public Safety Power Shutdown program;
- 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 and wildfires or threats of wildfire become 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 future restrictions on water use mandated in California, which may decrease adopted usage and increase 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, more stringent rules regarding pipeline repairs and installation, 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;
- changes in laboratory detection capabilities and drinking water notification levels for certain fluorinated organic perfluoroalkyl substances (e.g. PFOA and PFAS) used to make certain fabrics and other materials, used in certain fire suppression agents and also used in various industrial processes;
- 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, a risk which may increase if flooding and rainfall become more frequent or severe as a result of climate change;
- 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 2018 Annual Report on Form 10-K) as you read this Form 10-Q. We qualify all our forward-looking statements by these cautionary statements.

AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
ASSETS
(Unaudited)

(in thousands)	September 30, 2019	December 31, 2018
Property, Plant and Equipment		
Regulated utility plant, at cost	$ 1,924,183	$ 1,832,336
Non-utility property, at cost	31,328	25,829
Total	1,955,511	1,858,165
Less - Accumulated depreciation	(577,145)	(561,855)
Net property, plant and equipment	1,378,366	1,296,310
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	27,579	25,356
Total other property and investments	28,695	26,472
Current Assets		
Cash and cash equivalents	10,398	7,141
Accounts receivable — customers (less allowance for doubtful accounts of $863 in 2019 and $892 in 2018)	28,088	23,395
Unbilled receivable	21,195	23,588
Receivable from the U.S. government	20,925	21,543
Other accounts receivable (less allowance for doubtful accounts of $59 in 2019 and 2018)	2,628	3,103
Income taxes receivable	238	2,164
Materials and supplies, at weighted average cost	6,090	5,775
Regulatory assets — current	14,819	16,527
Prepayments and other current assets	6,443	6,063
Contract assets	21,645	22,169
Total current assets	132,469	131,468
Other Assets		
Receivable from the U.S. government	39,352	39,583
Contract assets	7,056	2,278
Operating lease right-of-use assets	13,017	—
Other	5,426	5,322
Total other assets	64,851	47,183
Total Assets	$ 1,604,381	$ 1,501,433

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

(in thousands, except number of shares)	September 30, 2019	December 31, 2018
Capitalization		
Common shares, no par value		
Authorized: 60,000,000 shares		
Outstanding: 36,839,301 shares in 2019 and 36,757,842 shares in 2018	$ 255,408	$ 253,689
Earnings reinvested in the business	340,539	304,534
Total common shareholders' equity	595,947	558,223
Long-term debt	281,001	281,087
Total capitalization	876,948	839,310
Current Liabilities		
Long-term debt — current	344	40,320
Accounts payable	59,771	59,532
Income taxes payable	2,019	360
Accrued other taxes	10,846	10,094
Accrued employee expenses	12,173	13,842
Accrued interest	6,488	3,865
Unrealized loss on purchased power contracts	3,022	311
Contract liabilities	12,689	7,530
Operating lease liabilities	1,841	—
Other	10,654	10,731
Total current liabilities	119,847	146,585
Other Credits		
Notes payable to bank	194,500	95,500
Advances for construction	63,788	66,305
Contributions in aid of construction - net	129,343	124,385
Deferred income taxes	118,889	114,216
Regulatory liabilities	20,083	44,867
Unamortized investment tax credits	1,313	1,367
Accrued pension and other postretirement benefits	57,042	57,636
Operating lease liabilities	11,536	—
Other	11,092	11,262
Total other credits	607,586	515,538
Commitments and Contingencies (Note 9)		
Total Capitalization and Liabilities	$ 1,604,381	$ 1,501,433

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED
SEPTEMBER 30, 2019 AND 2018
(Unaudited)

	Three months ended September 30,	
(in thousands, except per share amounts)	**2019**	**2018**
Operating Revenues		
Water	$ 95,249	$ 87,689
Electric	11,996	7,875
Contracted services	27,251	28,618
Total operating revenues	134,496	124,182
Operating Expenses		
Water purchased	23,361	21,842
Power purchased for pumping	3,042	3,217
Groundwater production assessment	5,634	5,961
Power purchased for resale	2,403	2,647
Supply cost balancing accounts	(2,680)	(5,212)
Other operation	8,267	8,355
Administrative and general	20,626	21,570
Depreciation and amortization	9,006	10,118
Maintenance	4,109	3,422
Property and other taxes	5,234	4,692
ASUS construction	12,894	13,620
Gain on sale of assets	(124)	(25)
Total operating expenses	91,772	90,207
Operating Income	42,724	33,975
Other Income and Expenses		
Interest expense	(6,279)	(5,948)
Interest income	826	641
Other, net	140	1,223
Total other income and expenses, net	(5,313)	(4,084)
Income before income tax expense	37,411	29,891
Income tax expense	9,405	6,939
Net Income	$ 28,006	$ 22,952
Weighted Average Number of Common Shares Outstanding	36,835	36,737
Basic Earnings Per Common Share	$ 0.76	$ 0.62
Weighted Average Number of Diluted Shares	36,996	36,950
Fully Diluted Earnings Per Common Share	$ 0.76	$ 0.62
Dividends Declared Per Common Share	$ 0.305	$ 0.275

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2019 AND 2018
(Unaudited)

	Nine Months Ended September 30,	
(in thousands, except per share amounts)	**2019**	**2018**
Operating Revenues		
Water	$ 248,112	$ 228,834
Electric	30,033	25,548
Contracted services	82,731	71,429
Total operating revenues	360,876	325,811
Operating Expenses		
Water purchased	55,263	52,057
Power purchased for pumping	6,562	7,141
Groundwater production assessment	14,020	15,146
Power purchased for resale	8,498	8,439
Supply cost balancing accounts	(2,845)	(11,110)
Other operation	24,546	24,125
Administrative and general	61,827	62,076
Depreciation and amortization	26,493	29,794
Maintenance	9,728	10,921
Property and other taxes	15,000	13,863
ASUS construction	39,671	35,168
Gain on sale of assets	(236)	(43)
Total operating expenses	258,527	247,577
Operating Income	102,349	78,234
Other Income and Expenses		
Interest expense	(18,878)	(17,919)
Interest income	2,644	1,813
Other, net	2,073	1,844
Total other income and expenses, net	(14,161)	(14,262)
Income before income tax expense	88,188	63,972
Income tax expense	20,546	13,890
Net Income	$ 67,642	$ 50,082
Weighted Average Number of Common Shares Outstanding	36,804	36,728
Basic Earnings Per Common Share	$ 1.83	$ 1.36
Weighted Average Number of Diluted Shares	36,960	36,935
Fully Diluted Earnings Per Common Share	$ 1.83	$ 1.35
Dividends Declared Per Common Share	$ 0.855	$ 0.785

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CHANGES
IN COMMON SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(Unaudited)

	Nine Months Ended September 30, 2019			
	Common Shares		Reinvested	
(in thousands)	Number of Shares	Amount	Earnings in the Business	Total
Balances at December 31, 2018	36,758	$ 253,689	$ 304,534	$ 558,223
Add:				
Net income			12,852	12,852
Exercise of stock options and other issuances of Common Shares	37	75		75
Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements (Note 4)		463		463
Dividend equivalent rights on stock-based awards not paid in cash		70		70
Deduct:				
Dividends on Common Shares			10,113	10,113
Dividend equivalent rights on stock-based awards not paid in cash			70	70
Balances at March 31, 2019	36,795	$ 254,297	$ 307,203	$ 561,500
Add:				
Net income			26,784	26,784
Exercise of stock options and other issuances of Common Shares	37	291		291
Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements (Note 4)		331		331
Dividend equivalent rights on stock-based awards not paid in cash		50		50
Deduct:				
Dividends on Common Shares			10,119	10,119
Dividend equivalent rights on stock-based awards not paid in cash			50	50
Balances at June 30, 2019	36,832	$ 254,969	$ 323,818	$ 578,787
Add:				
Net income			28,006	28,006
Exercise of stock options and other issuances of Common Shares	7	50		50
Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements (Note 4)		338		338
Dividend equivalent rights on stock-based awards not paid in cash		51		51
Deduct:				
Dividends on Common Shares			11,234	11,234
Dividend equivalent rights on stock-based awards not paid in cash			51	51
Balances at September 30, 2019	36,839	$ 255,408	$ 340,539	$ 595,947

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CHANGES
IN COMMON SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Unaudited)

	Nine Months Ended September 30, 2018			
	Common Shares		Reinvested Earnings in the Business	
(in thousands)	Number of Shares	Amount		Total
Balances at December 31, 2017	36,681	$ 250,124	$ 279,821	$ 529,945
Add:				
Net income			10,782	10,782
Exercise of stock options and other issuances of Common Shares	52	340		340
Taxes paid from shares withheld from employees related to net		(181)		(181)
Dividend equivalent rights on stock-based awards not paid in cash		56		56
Deduct:				
Dividends on Common Shares			9,362	9,362
Dividend equivalent rights on stock-based awards not paid in cash			56	56
Balances at March 31, 2018	36,733	$ 250,339	$ 281,185	$ 531,524
Add:				
Net income			16,348	16,348
Stock-based compensation, net of taxes paid from shares withheld		705		705
Dividend equivalent rights on stock-based awards not paid in cash		48		48
Deduct:				
Dividends on Common Shares			9,367	9,367
Dividend equivalent rights on stock-based awards not paid in cash			48	48
Balances at June 30, 2018	36,733	$ 251,092	$ 288,118	$ 539,210
Add:				
Net income			22,952	22,952
Exercise of stock options and other issuances of Common Shares	12	8		8
Stock-based compensation, net of taxes paid from shares withheld		2,093		2,093
Dividend equivalent rights on stock-based awards not paid in cash		58		58
Deduct:				
Dividends on Common Shares			10,102	10,102
Dividend equivalent rights on stock-based awards not paid in cash			58	58
Balances at September 30, 2018	36,745	$ 253,251	$ 300,910	$ 554,161

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	**2019**	**2018**
Cash Flows From Operating Activities:		
Net income	$ 67,642	$ 50,082
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,727	29,973
Provision for doubtful accounts	471	588
Deferred income taxes and investment tax credits	2,242	(2,732)
Stock-based compensation expense	2,468	3,648
Gain on sale of assets	(236)	(43)
Gain on investments held in a trust	(2,512)	(796)
Other — net	144	230
Changes in assets and liabilities:		
Accounts receivable — customers	(5,162)	(4,385)
Unbilled receivable	2,393	1,196
Other accounts receivable	473	5,849
Receivables from the U.S. government	(4,160)	(14,818)
Materials and supplies	(315)	(827)
Prepayments and other assets	3,029	(1,319)
Contract assets	755	11,345
Regulatory assets	(19,112)	22,945
Accounts payable	2,043	(2,108)
Income taxes receivable/payable	3,585	4,831
Contract liabilities	5,159	5,031
Accrued pension and other postretirement benefits	564	(2,305)
Other liabilities	(1,894)	2,020
Net cash provided	84,304	108,405
Cash Flows From Investing Activities:		
Capital expenditures	(111,088)	(87,328)
Proceeds from sale of assets	137	63
Other investing activities	279	(1,492)
Net cash used	(110,672)	(88,757)
Cash Flows From Financing Activities:		
Proceeds from stock option exercises	416	348
Receipt of advances for and contributions in aid of construction	8,260	4,363
Refunds on advances for construction	(4,679)	(3,223)
Retirement or repayments of long-term debt	(40,325)	(326)
Net change in notes payable to banks	99,000	11,000
Dividends paid	(31,466)	(28,831)
Other financing activities	(1,581)	(1,217)
Net cash provided (used)	29,625	(17,886)
Net change in cash and cash equivalents	3,257	1,762
Cash and cash equivalents, beginning of period	7,141	214
Cash and cash equivalents, end of period	$ 10,398	$ 1,976
Non-cash transactions:		
Accrued payables for investment in utility plant	$ 25,599	$ 21,703
Property installed by developers and conveyed	$ 1,376	$ 1,968

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

GOLDEN STATE WATER COMPANY
BALANCE SHEETS
ASSETS
(Unaudited)

(in thousands)	September 30, 2019	December 31, 2018
Utility Plant		
Utility plant, at cost	$ 1,924,183	$ 1,832,336
Less - Accumulated depreciation	(565,353)	(551,244)
Net utility plant	1,358,830	1,281,092
Other Property and Investments	25,495	23,263
Current Assets		
Cash and cash equivalents	4,453	4,187
Accounts receivable-customers (less allowance for doubtful accounts of $863 in 2019 and $892 in 2018)	28,088	23,395
Unbilled receivable	20,299	17,892
Other accounts receivable (less allowance for doubtful accounts of $59 in 2019 and 2018)	1,454	1,959
Income taxes receivable from Parent	—	5,617
Materials and supplies, at average cost	5,053	4,797
Regulatory assets — current	14,819	16,527
Prepayments and other current assets	5,599	5,275
Total current assets	79,765	79,649
Other Assets		
Operating lease right-of-use assets	12,494	—
Other	5,325	5,218
Total other assets	17,819	5,218
Total Assets	$ 1,481,909	$ 1,389,222

The accompanying notes are an integral part of these financial statements

GOLDEN STATE WATER COMPANY
BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

(in thousands, except number of shares)	September 30, 2019	December 31, 2018
Capitalization		
Common Shares, no par value:		
Authorized: 1,000 shares		
Outstanding: 165 shares in 2019 and 2018	$ 293,658	$ 292,412
Earnings reinvested in the business	245,496	211,163
Total common shareholder’s equity	539,154	503,575
Long-term debt	281,001	281,087
Total capitalization	820,155	784,662
Current Liabilities		
Long-term debt — current	344	40,320
Accounts payable	51,104	47,865
Accrued other taxes	10,459	9,911
Accrued employee expenses	10,389	11,910
Accrued interest	6,177	3,550
Income taxes payable to Parent	1,420	—
Unrealized loss on purchased power contracts	3,022	311
Operating lease liabilities	1,559	—
Other	10,223	9,432
Total current liabilities	94,697	123,299
Other Credits		
Intercompany payable to Parent	151,240	57,289
Advances for construction	63,788	66,305
Contributions in aid of construction — net	129,343	124,385
Deferred income taxes	121,938	118,241
Regulatory liabilities	20,083	44,867
Unamortized investment tax credits	1,313	1,367
Accrued pension and other postretirement benefits	57,042	57,636
Operating lease liabilities	11,331	—
Other	10,979	11,171
Total other credits	567,057	481,261
Commitments and Contingencies (Note 9)		
Total Capitalization and Liabilities	$ 1,481,909	$ 1,389,222

The accompanying notes are an integral part of these financial statements

GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED
SEPTEMBER 30, 2019 AND 2018
(Unaudited)

	Three Months Ended September 30,	
(in thousands)	**2019**	**2018**
Operating Revenues		
Water	$ 95,249	$ 87,689
Electric	11,996	7,875
Total operating revenues	107,245	95,564
Operating Expenses		
Water purchased	23,361	21,842
Power purchased for pumping	3,042	3,217
Groundwater production assessment	5,634	5,961
Power purchased for resale	2,403	2,647
Supply cost balancing accounts	(2,680)	(5,212)
Other operation	6,729	6,570
Administrative and general	15,205	16,367
Depreciation and amortization	8,359	9,623
Maintenance	3,423	2,709
Property and other taxes	4,787	4,300
Total operating expenses	70,263	68,024
Operating Income	36,982	27,540
Other Income and Expenses		
Interest expense	(5,986)	(5,781)
Interest income	546	451
Other, net	203	1,123
Total other income and expenses, net	(5,237)	(4,207)
Income before income tax expense	31,745	23,333
Income tax expense	8,383	5,414
Net Income	$ 23,362	$ 17,919

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

GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2019 AND 2018
(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	**2019**	**2018**
Operating Revenues		
Water	$ 248,112	$ 228,834
Electric	30,033	25,548
Total operating revenues	278,145	254,382
Operating Expenses		
Water purchased	55,263	52,057
Power purchased for pumping	6,562	7,141
Groundwater production assessment	14,020	15,146
Power purchased for resale	8,498	8,439
Supply cost balancing accounts	(2,845)	(11,110)
Other operation	19,643	19,423
Administrative and general	44,977	46,693
Depreciation and amortization	24,354	28,387
Maintenance	7,788	9,034
Property and other taxes	13,622	12,690
Gain on sale of assets	(83)	—
Total operating expenses	191,799	187,900
Operating Income	86,346	66,482
Other Income and Expenses		
Interest expense	(17,985)	(17,397)
Interest income	1,497	1,288
Other, net	2,153	1,827
Total other income and expenses, net	(14,335)	(14,282)
Income before income tax expense	72,011	52,200
Income tax expense	17,329	11,743
Net Income	$ 54,682	$ 40,457

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

GOLDEN STATE WATER COMPANY
STATEMENTS OF CHANGES
IN COMMON SHAREHOLDER'S EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(Unaudited)

	Nine Months Ended September 30, 2019			
	Common Shares		Reinvested	
(in thousands, except number of shares)	**Number of Shares**	**Amount**	**Earnings in the Business**	**Total**
Balances at December 31, 2018	165	$ 292,412	$ 211,163	$ 503,575
Add:				
Net income			9,022	9,022
Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements (Note 4)		572		572
Dividend equivalent rights on stock-based awards not paid in cash		60		60
Deduct:				
Dividends on Common Shares			10,100	10,100
Dividend equivalent rights on stock-based awards not paid in cash			60	60
Balances at March 31, 2019	165	$ 293,044	$ 210,025	$ 503,069
Add:				
Net income			22,298	22,298
Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements (Note 4)		257		257
Dividend equivalent rights on stock-based awards not paid in cash		44		44
Deduct:				
Dividends on Common Shares			10,100	10,100
Dividend equivalent rights on stock-based awards not paid in cash			44	44
Balances at June 30, 2019	165	$ 293,345	$ 222,179	$ 515,524
Add:				
Net income			23,362	23,362
Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements (Note 4)		268		268
Dividend equivalent rights on stock-based awards not paid in cash		45		45
Deduct:				
Dividend equivalent rights on stock-based awards not paid in cash			45	45
Balances at September 30, 2019	165	$ 293,658	$ 245,496	$ 539,154

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

GOLDEN STATE WATER COMPANY
STATEMENTS OF CHANGES
IN COMMON SHAREHOLDER'S EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Unaudited)

	Nine Months Ended September 30, 2018			
	Common Shares		Reinvested	
(in thousands, except number of shares)	Number of Shares	Amount	Earnings in the Business	Total
Balances at December 31, 2017	146	$ 242,181	$ 232,193	$ 474,374
Add:				
Net income			8,890	8,890
Taxes paid from shares withheld from employees related to net share settlements, net of stock-based compensation (Note 4)		(266)		(266)
Dividend equivalent rights on stock-based awards not paid in cash		49		49
Deduct:				
Dividends on Common Shares			9,380	9,380
Dividend equivalent rights on stock-based awards not paid in cash			49	49
Balances at March 31, 2018	146	$ 241,964	$ 231,654	$ 473,618
Add:				
Net income			13,648	13,648
Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements (Note 4)		640		640
Dividend equivalent rights on stock-based awards not paid in cash		41		41
Deduct:				
Dividends on Common Shares			9,370	9,370
Dividend equivalent rights on stock-based awards not paid in cash			41	41
Balance at June 30, 2018	146	$ 242,645	$ 235,891	$ 478,536
Add:				
Net income			17,919	17,919
Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements (Note 4)		2,021		2,021
Dividend equivalent rights on stock-based awards not paid in cash		50		50
Deduct:				
Dividends on Common Shares			10,100	10,100
Dividend equivalent rights on stock-based awards not paid in cash			50	50
Balance at September 30, 2018	146	$ 244,716	$ 243,660	$ 488,376

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

GOLDEN STATE WATER COMPANY
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	**2019**	**2018**
Cash Flows From Operating Activities:		
Net income	$ 54,682	$ 40,457
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,588	28,566
Provision for doubtful accounts	469	597
Deferred income taxes and investment tax credits	1,245	(3,797)
Stock-based compensation expense	2,169	3,264
Gain on sale of property	(83)	—
Gain on investments held in a trust	(2,512)	(796)
Other — net	219	253
Changes in assets and liabilities:		
Accounts receivable — customers	(5,162)	(4,385)
Unbilled receivable	(2,407)	(1,135)
Other accounts receivable	505	4,755
Materials and supplies	(256)	(628)
Prepayments and other assets	2,584	(708)
Regulatory assets	(19,112)	22,945
Accounts payable	5,043	726
Intercompany receivable/payable	(49)	(361)
Income taxes receivable/payable from/to Parent	7,037	5,031
Accrued pension and other postretirement benefits	564	(2,305)
Other liabilities	(568)	1,283
Net cash provided	68,956	93,762
Cash Flows From Investing Activities:		
Capital expenditures	(104,791)	(79,240)
Proceeds from sale of assets	83	—
Other investing activities	279	(1,492)
Net cash used	(104,429)	(80,732)
Cash Flows From Financing Activities:		
Receipt of advances for and contributions in aid of construction	8,260	4,363
Refunds on advances for construction	(4,679)	(3,223)
Retirement or repayments of long-term debt	(40,325)	(326)
Net change in intercompany borrowings	94,000	16,000
Dividends paid	(20,200)	(28,850)
Other financing activities	(1,317)	(1,055)
Net cash provided (used)	35,739	(13,091)
Net change in cash and cash equivalents	266	(61)
Cash and cash equivalents, beginning of period	4,187	214
Cash and cash equivalents, end of period	$ 4,453	$ 153
Non-cash transactions:		
Accrued payables for investment in utility plant	$ 25,599	$ 21,703
Property installed by developers and conveyed	$ 1,376	$ 1,968

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY AND SUBSIDIARIES
AND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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." AWR, through its wholly owned subsidiaries, serves over one million people in nine states.

GSWC is a public utility engaged principally in the purchase, production, distribution and sale of water in California serving approximately 261,000 customer connections. GSWC also distributes electricity in several San Bernardino County mountain communities in California serving approximately 24,000 customer connections 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. GSWC filed applications with the CPUC and the Federal Energy Regulatory Commission ("FERC") in December 2018 and July 2019, respectively, to transfer the assets and liabilities of the BVES division of GSWC to Bear Valley Electric Service, Inc., a newly created separate legal entity and stand-alone subsidiary of AWR. This reorganization plan is subject to regulatory approvals and, if approved, is not expected to result in a substantive change to AWR's operations and business segments. On October 11, 2019, the FERC approved GSWC's application for reorganization. The CPUC is scheduled to issue a final decision by the end of 2019.

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 annual 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.

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 stock 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 ("GAAP"). 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, 2018 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. 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, 2018 filed with the SEC.

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 during each of the three month periods ended September 30, 2019 and 2018, and approximately $3.5 million and $3.2 million during the nine months ended September 30, 2019 and 2018, respectively.

AWR borrows under a credit facility, which expires in May 2023, and provides funds to its subsidiaries, GSWC and ASUS, in support of their operations. The interest rate charged to GSWC and ASUS is sufficient to cover AWR's interest expense under the credit facility. In March 2019, AWR amended this credit facility to increase its borrowing capacity from $150.0 million to $200.0 million. As of September 30, 2019, there was $194.5 million outstanding under this facility. On October 31, 2019, AWR further amended its credit facility to temporarily increase its borrowing capacity by $25.0 million, from $200.0 million to $225.0 million, effective through June 30, 2020. Management intends to obtain additional financing during 2020 by issuing long- term debt at

GSWC. GSWC intends to use the proceeds from any new long-term debt to reduce its intercompany borrowings and to partially fund capital expenditures. AWR parent intends to use any financing proceeds from GSWC to pay down the amounts outstanding under its credit facility.

The CPUC requires GSWC to completely pay down all intercompany borrowings from AWR within a 24-month period. In November 2018, GSWC paid down its intercompany borrowings owed to AWR. The next 24-month period in which GSWC is required to completely pay down its intercompany borrowings ends in November 2020. As a result, GSWC's intercompany borrowings of $151.2 million as of September 30, 2019 have been classified as a long-term liability on GSWC's balance sheet.

GSWC Long-Term Debt: In March 2019, GSWC repaid $40.0 million of its 6.70% senior note, which matured in that month. GSWC increased its intercompany borrowings from AWR parent to fund the repayment of this note.

Recently Issued Accounting Pronouncements:

Accounting Pronouncements Adopted in 2019

In February 2016, the Financial Accounting Standards Board ("FASB") issued a new lease accounting standard, *Leases* (Accounting Standards Codification ("ASC") 842), which replaces the prior lease guidance, (ASC 840). 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. Registrant adopted the new lease accounting standard as of January 1, 2019 and did not adjust comparative periods for it. There was no cumulative-effect impact to the opening balance of retained earnings as a result of this adoption. Registrant elected the practical expedient under ASU 2018-01 *Land Easement Practical Expedient for Transition to Topic 842* and did not review existing easements entered into prior to January 1, 2019. Leases with terms of twelve months or less were not recorded on the balance sheet. The adoption of the new lease guidance did not have a material impact on Registrant's results of operations or liquidity, but resulted in the recognition of operating lease liabilities and operating lease right-of-use assets on its balance sheets. The adoption of this guidance as of January 1, 2019 resulted in the recognition of $7.6 million in right-of-use assets and $8.0 million in operating lease liabilities (see Note 10).

In August 2018, the FASB issued Accounting Standards Update ("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 ASU, entities that enter into cloud computing service arrangements are required to 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. Registrant adopted this guidance effective January 1, 2019. The adoption of this accounting standard did not have a significant impact on Registrant's financial statements.

Accounting Pronouncements to be Adopted in Future Periods

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* and issued further guidance in November 2018 and May 2019, related to the impairment of financial instruments, effective January 1, 2020. The new guidance provides an impairment model, known as the current expected credit loss model, which is based on expected credit losses rather than incurred losses over the remaining life of most financial assets measured at amortized cost, including trade and other receivables. Registrant is currently evaluating the impact of this new guidance and does not expect the adoption of the guidance to have a material impact on its financial statements.

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 ASU removes disclosures to pension plans and other post-retirement benefit plans that no longer are considered cost beneficial, clarifies the specific disclosure requirements and adds disclosure requirements deemed relevant. This ASU is effective for fiscal years ending after December 15, 2020 and will be applied by Registrant on a retrospective basis to all periods presented. Registrant is still evaluating the ASU and has not yet determined the effect on the Company's financial statements and disclosures.

Note 2 — Revenues

Most of Registrant's revenues are derived from contracts with customers, including tariff-based revenues from its regulated utilities. ASUS's 50-year firm fixed-price contracts with the U.S. government are considered service concession arrangements under ASC 853 *Service Concession Arrangements*. Accordingly, the services under these contracts are accounted for under Topic 606 *Revenue from Contracts with Customers* and the water and/or wastewater systems are not recorded as Property, Plant and Equipment on Registrant's balance sheet.

AMERICAN STATES WATER COMPANY AND SUBSIDIARIES
AND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Although GSWC has a diversified base of residential, commercial, industrial and other customers, revenues derived from residential and commercial customers generally account for more than 90% of total water and electric revenues. The vast majority of ASUS's revenues are from the U.S. government.

For the three and nine months ended September 30, 2019 and 2018, disaggregated revenues from contracts with customers by segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollar in thousands)	**2019**	**2018**	**2019**	**2018**
Water:				
Tariff-based revenues	$ 89,050	$ 87,204	$ 225,501	$ 223,230
Surcharges (cost-recovery activities)	1,900	937	2,954	2,458
Other	555	486	1,475	1,381
Water revenues from contracts with customers	91,505	88,627	229,930	227,069
WRAM under (over)-collection (alternative revenue program)	3,744	(938)	18,182	1,765
Total water revenues	95,249	87,689	248,112	228,834
Electric:				
Tariff-based revenues	9,729	8,207	28,693	26,021
Surcharges (cost-recovery activities)	51	62	148	172
Electric revenues from contracts with customers	9,780	8,269	28,841	26,193
BRRAM under (over)-collection (alternative revenue program)	2,216	(394)	1,192	(645)
Total electric revenues	11,996	7,875	30,033	25,548
Contracted services:				
Water	13,797	16,909	41,772	44,134
Wastewater	13,454	11,709	40,959	27,295
Contracted services revenues from contracts with customers	27,251	28,618	82,731	71,429
Total revenues	$ 134,496	$ 124,182	$ 360,876	$ 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, were as follows:

(dollar in thousands)	**September 30, 2019**	**January 1, 2019**
Receivable from the U.S. government	$ 60,277	$ 61,126
Contract assets	$ 28,701	$ 24,447
Contract liabilities	$ 12,689	$ 7,530

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, 2019, which were included in contract liabilities at the beginning of the period were $5.9 million and $7.3 million, respectively. Contracted services revenues recognized during the three and nine months ended September 30, 2019 from performance obligations satisfied in previous periods were not material.

As of September 30, 2019, Registrant's aggregate remaining performance obligations, which are entirely for the contracted services segment, were $3.2 billion. Registrant expects to recognize revenue on these remaining performance obligations over the remaining term of each of the 50-year contracts, which range from 35 to 49 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 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, 2019, Registrant had approximately $53.4 million of regulatory liabilities, net of regulatory assets, not accruing carrying costs. Of this amount, (i) $80.3 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) $14.0 million of regulatory liabilities are from flowed-through deferred income taxes, (iii) $35.0 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) $3.0 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. The remainder of regulatory assets relates to other items that do not provide for or incur carrying costs.

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 or 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 that requires 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 twelve 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, 2019	December 31, 2018
GSWC		
Water Revenue Adjustment Mechanism and Modified Cost Balancing Account	$ 29,228	$ 17,763
Costs deferred for future recovery on Aerojet case	8,663	9,516
Pensions and other post-retirement obligations (Note 8)	32,222	33,124
Derivative unrealized loss (Note 5)	3,022	311
Low income rate assistance balancing accounts	538	2,784
General rate case memorandum accounts	6,014	5,054
Excess deferred income taxes	(80,303)	(81,465)
Flow-through taxes, net	(14,037)	(15,273)
Other regulatory assets	17,310	15,656
Tax Cuts and Jobs Act memorandum accounts	—	(8,293)
Various refunds to customers	(7,921)	(7,517)
Total	$ (5,264)	$ (28,340)

Regulatory matters are discussed in the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2018 filed with the SEC. The discussion below focuses on significant matters and developments since December 31, 2018.

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.

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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, 2018. For the three months ended September 30, 2019 and 2018, surcharges (net of surcredits) of approximately $5.5 million and $7.7 million, respectively, were billed to customers to recover previously incurred under-collections in the WRAM/MCBA accounts. For the nine months ended September 30, 2019 and 2018, surcharges (net of surcredits) of approximately $9.1 million and $17.5 million, respectively, were billed to customers to recover previously incurred under-collections in the WRAM/MCBA accounts. During the nine months ended September 30, 2019, GSWC recorded additional net under-collections in the WRAM/MCBA accounts of approximately $20.5 million due to lower-than-adopted water usage, as well as higher-than-adopted supply costs currently in billed customer rates. As of September 30, 2019, GSWC had an aggregated regulatory asset of $29.2 million, which is comprised of a $19.1 million under-collection in the WRAM accounts and a $10.1 million under-collection in the MCBA accounts.

General Rate Case Filings:

Water Segment:

In July 2017, GSWC filed a general rate case application for all of its water regions and the general office to determine new rates for the years 2019 - 2021. On May 30, 2019, the CPUC issued a final decision on GSWC's water general rate case with rates retroactive to January 1, 2019. Among other things, the final decision approves in its entirety a settlement agreement that had been entered into between GSWC and the CPUC's Public Advocates Office in August 2018. As a result, the final decision authorizes GSWC to invest approximately $334.5 million in capital expenditures over the rate cycle. The $334.5 million of infrastructure investment includes $20.4 million of capital projects to be filed for revenue recovery through advice letters when those projects are completed.

As a result of the May 2019 CPUC decision, GSWC implemented new water rates on June 8, 2019. Due to the delay in receiving a final decision by the CPUC, billed water revenues up to June 8, 2019 were based on 2018 adopted rates. The new rates are retroactive to January 1, 2019 and, as a result, the cumulative retroactive impact of the CPUC decision was recorded during the second quarter of 2019, primarily affecting water revenues, supply costs and depreciation expense. Accordingly, GSWC added approximately $5.6 million to the general rate case memorandum accounts regulatory asset representing the rate difference between interim rates and final rates authorized by the CPUC retroactive to January 1, 2019. Surcharges were implemented in September 2019 to recover the retroactive rate difference over approximately 12 - 24 months. The final decision also approved the recovery of previously incurred costs that were being tracked in CPUC-authorized memorandum accounts, which resulted in a reduction to administrative and general expense of approximately $1.1 million, which was also recorded during the second quarter of 2019.

In December 2017, the Tax Cuts and Jobs Act ("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 was 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 adopted revenue requirement was tracked in a memorandum account effective January 1, 2018. On July 1, 2018, new lower water rates, which incorporated the new federal income tax rate, were implemented for all water ratemaking areas. As a result of receiving the May 2019 CPUC final decision on the water general rate case, in the third quarter of 2019 GSWC refunded approximately $7.2 million of over-collections recorded in this memorandum account as a one-time surcredit to water customers.

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. In November 2018, GSWC and the Public Advocates Office filed a joint motion to adopt a settlement agreement between the two parties resolving all issues in connection with the general rate case. On August 15, 2019, the CPUC issued a final decision, adopting the settlement agreement which, among other things, extends the rate cycle by an additional year (new rates will be effective for 2018 - 2022) and is retroactive to January 1, 2018. Because of the delay in finalizing the electric general rate case, billed electric revenues during the first two quarters of 2019, and all of 2018, were based on 2017 adopted rates pending a final decision by the CPUC in the rate case application. As a result, a $2.3 million retroactive increase to revenues related to the full year of 2018 was recorded during the third quarter of 2019 with a corresponding increase to GSWC's regulatory assets for future recovery from customers.

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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, and 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)	**2019**	**2018**	**2019**	**2018**
Net income	$ 28,006	$ 22,952	$ 67,642	$ 50,082
Less: (a) Distributed earnings to common shareholders	11,234	10,102	31,466	28,831
Distributed earnings to participating securities	50	54	137	151
Undistributed earnings	16,722	12,796	36,039	21,100
(b) Undistributed earnings allocated to common shareholders	16,647	12,727	35,882	20,991
Undistributed earnings allocated to participating securities	75	69	157	109
Total income available to common shareholders, basic (a)+(b)	$ 27,881	$ 22,829	$ 67,348	$ 49,822
Weighted average Common Shares outstanding, basic	36,835	36,737	36,804	36,728
Basic earnings per Common Share	$ 0.76	$ 0.62	$ 1.83	$ 1.36

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, 2019 and 2018, there were 8,556 and 47,792 options outstanding, respectively, under these plans. At September 30, 2019 and 2018, there were also 165,783 and 198,613 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)	**2019**	**2018**	**2019**	**2018**
Common shareholders earnings, basic	$ 27,881	$ 22,829	$ 67,348	$ 49,822
Undistributed earnings for dilutive stock-based awards	75	69	157	109
Total common shareholders earnings, diluted	$ 27,956	$ 22,898	$ 67,505	$ 49,931
Weighted average common shares outstanding, basic	36,835	36,737	36,804	36,728
Stock-based compensation (1)	161	213	156	207
Weighted average common shares outstanding, diluted	36,996	36,950	36,960	36,935
Diluted earnings per Common Share	$ 0.76	$ 0.62	$ 1.83	$ 1.35

(1) In applying the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in the calculation of diluted EPS, 8,556 and 47,792 stock options at September 30, 2019 and 2018, respectively, were deemed to be outstanding in accordance with accounting guidance on earnings per share. All of the 165,783 and 198,613 restricted stock units at September 30, 2019 and 2018, respectively, were included in the calculation of diluted EPS for the three and nine months ended September 30, 2019 and 2018.

No stock options outstanding at September 30, 2019 had an exercise price greater than the average market price of AWR's Common Shares for the three and nine months ended September 30, 2019. There were no stock options outstanding at September 30, 2019 or 2018 that were anti-dilutive.

During the nine months ended September 30, 2019 and 2018, AWR issued 81,459 and 64,245 common shares, for approximately $416,000 and $348,000, respectively, under Registrant's Common Share Purchase and Dividend Reinvestment Plan, the 401(k) Plan, the stock incentive plans for employees, and the non-employee directors stock plans.

During the nine months ended September 30, 2019 and 2018, AWR paid $1.6 million and $1.2 million, respectively, to taxing authorities on employees' behalf for shares withheld related to net share settlements. During the nine months ended

September 30, 2019 and 2018, GSWC paid $1.3 million and $1.1 million, respectively, to taxing authorities on employees' behalf for shares withheld related to net share settlements. These payments are included in the stock-based compensation caption of the statements of equity.

During the three months ended September 30, 2019 and 2018, AWR paid quarterly dividends of approximately $11.2 million, or $0.305 per share, and $10.1 million, or $0.275 per share, respectively. During the nine months ended September 30, 2019 and 2018, AWR paid quarterly dividends of approximately $31.5 million, or $0.855 per share, and $28.8 million, or $0.785 per share, respectively.

During the three months ended September 30, 2019, GSWC did not pay a dividend to AWR. Instead, during the three months ended September 30, 2019, ASUS paid a $11.3 million dividend to AWR. During the three months ended September 30, 2018, GSWC paid dividends of $10.1 million, to AWR. During the nine months ended September 30, 2019 and 2018, GSWC paid dividends of $20.2 million and $28.9 million respectively, to AWR.

Note 5 — Derivative Instruments

GSWC's electric division, 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 August 2019, the CPUC approved an application that allowed BVES to enter into new long-term purchased power contracts with energy providers, which BVES executed in September 2019. BVES will begin taking power under these long-term contracts during the fourth quarter of 2019 to replace existing expiring contracts. The new contracts provide power at a fixed cost over approximately three- and five-year terms depending on the amount of power and period during which the power is purchased under the contracts.

These purchase power contracts are subject to the accounting guidance for derivatives and require mark-to-market derivative accounting. Among other things, the CPUC also authorized BVES to use 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 on a monthly basis into a non-interest bearing regulatory memorandum account that tracks the changes in fair value of the derivative throughout the terms of the contracts. As a result, these unrealized gains and losses do not impact GSWC's earnings. As of September 30, 2019, there was a $3.0 million unrealized loss recorded as a regulatory asset in the memorandum account for the purchased power contracts. As of September 30, 2019, GSWC's commitment under BVES's purchased power contracts totaled approximately $28.0 million. The notional volume of derivatives remaining under these long-term contracts as of September 30, 2019 was 674,961 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 this derivative instrument were estimated based on independent sources such as broker quotes and publications that are not observable in or corroborated by the market. 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, 2019 and 2018:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Fair value at beginning of the period	$ (267)	$ (1,710)	$ (311)	$ (2,941)
Unrealized gain (loss) on purchased power contracts	(2,755)	567	(2,711)	1,798
Fair value at end of the period	$ (3,022)	$ (1,143)	$ (3,022)	$ (1,143)

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 these items.

Investments held in a Rabbi Trust for the supplemental executive retirement plan ("SERP") are measured at fair value and totaled $18.8 million as of September 30, 2019. 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, 2019 and December 31, 2018 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, 2019 valuation decreased as compared to December 31, 2018, increasing the fair value of long-term debt as of September 30, 2019 after taking into account the repayment of $40.0 million of GSWC's 6.70% senior note in March 2019. Changes in the assumptions will produce different results.

	September 30, 2019		December 31, 2018	
(dollars in thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial liabilities:				
Long-term debt—GSWC (1)	$ 284,699	$ 380,007	$ 324,978	$ 387,889

(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 income tax rate (“ETR”) was 25.1% and 23.2% for the three months ended September 30, 2019 and 2018, respectively, and was 23.3% and 21.7% for the nine months ended September 30, 2019 and 2018, respectively. GSWC's ETR was 26.4% and 23.2% for the three months ended September 30, 2019 and 2018, respectively, and was 24.1% and 22.5% for the nine months ended September 30, 2019 and 2018, respectively.

The AWR and GSWC effective tax rates differ from the federal statutory tax rate primarily due to (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, 2019 and 2018, (iii) the continuing amortization of the excess deferred income tax liability that commenced upon the lowering of the federal tax rate, and (iv) 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). As a regulated utility, GSWC treats certain temporary differences as flow-through in computing its income tax expense consistent with the income tax method used in its CPUC-jurisdiction ratemaking. Flow-through items either increase or decrease tax expense and thus impact the ETR.

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Note 8 — Employee Benefit Plans

The components of net periodic benefit costs for Registrant's pension plan, postretirement plan and SERP for the three and nine months ended September 30, 2019 and 2018 were as follows:

	For The Three Months Ended September 30,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2019	2018	2019	2018	2019	2018
Components of Net Periodic Benefits Cost:						
Service cost	$ 1,110	$ 1,335	$ 53	$ 48	$ 298	$ 274
Interest cost	2,132	1,912	80	75	267	222
Expected return on plan assets	(2,594)	(2,793)	(112)	(123)	—	—
Amortization of prior service cost	109	—	—	—	—	—
Amortization of actuarial (gain) loss	355	314	(150)	(212)	118	262
Net periodic benefits costs under accounting standards	1,112	768	(129)	(212)	683	758
Regulatory adjustment - deferred	(160)	—	—	—	—	—
Total expense (benefit) recognized, before surcharges and allocation to overhead pool	$ 952	$ 768	$ (129)	$ (212)	$ 683	$ 758

	For The Nine Months Ended September 30,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2019	2018	2019	2018	2019	2018
Components of Net Periodic Benefits Cost:						
Service cost	$ 3,330	$ 4,005	$ 159	$ 162	$ 894	$ 822
Interest cost	6,396	5,736	240	219	801	666
Expected return on plan assets	(7,782)	(8,379)	(336)	(369)	—	—
Amortization of prior service cost	327	—	—	—	—	—
Amortization of actuarial (gain) loss	1,065	942	(450)	(576)	354	786
Net periodic benefits costs under accounting standards	3,336	2,304	(387)	(564)	2,049	2,274
Regulatory adjustment - deferred	(502)	—	—	—	—	—
Total expense (benefit) recognized, before surcharges and allocation to overhead pool	$ 2,834	$ 2,304	$ (387)	$ (564)	$ 2,049	$ 2,274

During the third quarter of 2019, Registrant contributed approximately $3.9 million to its pension plan.

As authorized by the CPUC in the 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. During the three and nine months ended September 30, 2019, GSWC's actual pension expense was higher than the amounts included in water customer rates by $160,000 and $502,000 , respectively. As of September 30, 2019, GSWC had a $2.8 million net over-collection in the two-way pension balancing accounts included as part of the pension regulatory asset (Note 3).

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Note 9 — Contingencies

Environmental Clean-Up and Remediation:

GSWC has been involved in environmental remediation and cleanup at a plant site ("Chadron Plant") that contained an underground storage tank which was used to store gasoline for its vehicles. This 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 this site. Analysis indicates that off-site monitoring wells may be necessary to document effectiveness of remediation.

As of September 30, 2019, the total amount spent to clean up and remediate GSWC's plant facility was approximately $6.2 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, 2019, 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 also 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 — Leases

The adoption of the new lease guidance (see Note 1) effective January 1, 2019 did not have a material impact on Registrant's results of operations or liquidity but resulted in the recognition of operating lease liabilities and operating lease right-of-use assets on its balance sheets. Right-of-use ("ROU") assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. As of September 30, 2019, Registrant has right-of-use assets of $13.0 million, short-term operating lease liabilities of $1.8 million and long-term operating lease liabilities of $11.5 million.

Significant assumptions and judgments made as part of the adoption of this new lease standard include determining (i) whether a contract contains a lease, (ii) whether a contract involves an identified asset, and (iii) which party to the contract directs the use of the asset. The discount rates used to calculate the present value of lease payments were determined based on hypothetical borrowing rates available to Registrant over terms similar to the lease terms.

Registrant's leases consist of real estate and equipment leases. Most of these are GSWC's leases. Most of Registrant's leases require fixed lease payments. Some real estate leases have escalation payments which depend on an index. Variable lease costs have not been material. Lease terms used to measure the lease liability include options to extend the lease if the option is reasonably certain to be exercised. Lease and non-lease components were combined to measure lease liabilities. Registrant also has a real estate lease that have not yet commenced as of September 30, 2019. This lease will increase operating right-of-use assets and operating lease liabilities by approximately $806,000 upon possession of the office space later in 2019.

GSWC's long-term debt includes $28.0 million of 9.56% private placement notes, which require GSWC to maintain a total indebtedness to capitalization ratio of less than 0.6667-to-1. The indebtedness, as defined in the note agreement, includes any lease liabilities required to be recorded under GAAP. As of September 30, 2019, GSWC had a total indebtedness (including GSWC's lease liabilities) to capitalization ratio of 0.4377-to-1. None of the other covenants or restrictions contained in Registrant's long-term debt agreements were affected by the adoption of the new lease standard.

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Registrant's supplemental lease information for the three and nine months ended September 30, 2019 is as follows (in thousands, except for weighted average data):

	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
Operating lease costs	$	827	$	2,386
Short-term lease costs	$	71	$	251
Weighted average remaining lease term (in years)		7.29		7.29
Weighted-average discount rate		3.6%		3.6%
Non-cash transactions:				
Lease liabilities arising from obtaining right-of-use assets	$	2,530	$	17,228

During the three months ended September 30, 2019 and 2018, Registrant's consolidated rent expense was approximately $683,000 and $569,000, respectively, and was approximately $2.0 million and $1.7 million for the nine months ended September 30, 2019 and 2018, respectively. Registrant has entered into several new office leases during 2019. Registrant's future minimum payments under long-term non-cancelable operating leases are as follows (in thousands):

	September 30, 2019		December 31, 2018	
2019 (October through December 2019)	$	691	$	2,818
2020		2,709		2,530
2021		2,533		1,497
2022		2,218		1,007
2023		1,779		546
Thereafter		6,745		605
Total lease payments		16,675	$	9,003
Less: imputed interest		3,298		
Total lease obligations		13,377		
Less: current obligations		1,841		
Long-term lease obligations	$	11,536		

There is no material difference between the consolidated operations of AWR and the operations of GSWC in regard to the future minimum payments under long-term non-cancelable operating leases.

Note 11 — 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 equity investments in its subsidiaries and note receivables therefrom, and deferred taxes.

All activities of GSWC, a rate-regulated utility, are geographically located within California. Activities of ASUS and its subsidiaries are conducted in California, Georgia, Florida, 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.

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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, excluding 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, 2019				
	GSWC			AWR	Consolidated
(dollars in thousands)	Water	Electric	ASUS	Parent	AWR
Operating revenues	$ 95,249	$ 11,996	$ 27,251	$ —	$ 134,496
Operating income (loss)	31,310	5,672	5,745	(3)	42,724
Interest expense, net	5,206	234	(144)	157	5,453
Utility plant	1,291,928	66,902	19,536	—	1,378,366
Depreciation and amortization expense (1)	7,690	669	647	—	9,006
Income tax expense (benefit)	6,720	1,663	1,391	(369)	9,405
Capital additions	25,267	2,864	1,802	—	29,933

	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 Nine Months Ended September 30, 2019				
	GSWC			AWR	Consolidated
(dollars in thousands)	Water	Electric	ASUS	Parent	AWR
Operating revenues	$ 248,112	$ 30,033	$ 82,731	$ —	$ 360,876
Operating income (loss)	77,835	8,511	16,010	(7)	102,349
Interest expense, net	15,555	933	(724)	470	16,234
Utility plant	1,291,928	66,902	19,536	—	1,378,366
Depreciation and amortization expense (1)	22,484	1,870	2,139	—	26,493
Income tax expense (benefit)	15,205	2,124	3,816	(599)	20,546
Capital additions	99,939	4,852	6,297	—	111,088

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(Unaudited)

	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

(1) Depreciation computed on GSWC's transportation equipment is recorded in other operating expenses and totaled $80,000 and $58,000 for the three months ended September 30, 2019 and 2018, respectively, and $234,000 and $179,000 for the nine months ended September 30, 2019 and 2018, respectively.

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

	September 30,	
	2019	2018
Total utility plant	$ 1,378,366	$ 1,262,915
Other assets	226,015	202,127
Total consolidated assets	$ 1,604,381	$ 1,465,042

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 includes specific references to AWR's individual segments and/or its subsidiaries (GSWC and ASUS and its subsidiaries), and AWR (parent) where applicable.

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, which equals each business segment's earnings divided by the company's weighted average number of diluted shares. Furthermore, the retroactive impact related to the first six months of 2019 and for fiscal 2018 resulting from the CPUC's final decision on the electric general rate case issued in August 2019, has been excluded when communicating that segment's quarterly and year-to-date results to help facilitate comparisons of the company's performance from period to period.

Registrant believes that the disclosure of the water and electric gross margins, earnings per share by business segment, and the adjustment to the electric segment's earnings for earnings related to prior periods, provide 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.*" A reconciliation to AWR's diluted earnings per share is included in the discussion under the sections titled "*Summary of Third Quarter Results by Segment*" and "*Summary of Year-to-Date Results by Segment.*"

Overview

Factors affecting our financial performance are summarized under *Forward-Looking Information* and under "Risk Factors" in our Form 10-K for the period ended December 31, 2018.

Water and Electric Segments:

GSWC's revenues, operating income and cash flows are earned primarily through delivering potable water to homes and businesses in California and the delivery of electricity in the Big Bear area of San Bernardino County, California. Rates charged to GSWC customers are determined by the CPUC. These rates are intended to allow recovery of operating costs and a reasonable rate of return on capital. GSWC plans to continue to seek additional rate increases in future years from the CPUC to recover operating and supply costs and receive reasonable returns on invested capital. Capital expenditures in future years at GSWC are expected to remain at higher levels than depreciation expense. When necessary, GSWC obtains funds from external sources in the capital markets and through bank borrowings.

General Rate Case Filings and Other Matters:

Water Segment:

In July 2017, GSWC filed a general rate case application for all of its water regions and the general office to determine new rates for the years 2019 – 2021. On May 30, 2019, the CPUC issued a final decision on GSWC's water general rate case with rates retroactive to January 1, 2019. Among other things, the final decision approves in its entirety an August 2018 settlement agreement that had been entered into between GSWC and the CPUC's Public Advocates Office. As a result, the final decision authorizes GSWC to invest approximately $334.5 million over the rate cycle. The $334.5 million of infrastructure investment 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 new rates approved will increase the water gross margin for 2019 by approximately $7.1 million, adjusted for updated inflation index values since the August 2018 settlement, as compared to the 2018 adopted water gross margin. The 2019 water revenue requirement has been reduced to reflect 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 includes a decrease of approximately $2.2 million for excess deferred tax refunds as a result of the 2017 Tax Cuts and Jobs Act ("Tax Act"), with a corresponding decrease in income tax expense also resulting in no impact to net earnings. Had depreciation remained the same as the 2018 adopted amount and there were no excess deferred tax refunds that lowered the 2019 revenue requirement, the water gross margin for 2019 would have increased by approximately $16.3 million.

As a result of the May 2019 CPUC final decision, GSWC implemented new water rates on June 8, 2019. The CPUC in the final decision also approved the recovery of previously incurred costs that were being tracked in CPUC-authorized memorandum accounts. This resulted in a reduction to administrative and general expense of approximately $1.1 million, or $0.02 per share, which was recorded during the second quarter of 2019. The final decision also allows for potential additional water revenue increases in 2020 and 2021 of approximately $9.1 million (based on current inflationary index values) and $12.0 million, respectively, subject to the results of an earnings test and changes to the forecasted inflationary index values.

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. In November 2018, GSWC and the Public Advocates Office filed a joint motion to adopt a settlement agreement between the two parties resolving all issues in connection with the general rate case.

On August 15, 2019, the CPUC issued a final decision on this general rate case, adopting the settlement agreement in its entirety. Among other things, the decision authorizes a new return on equity for GSWC's electric segment of 9.60%, as compared to its previously authorized return of 9.95%. The decision also includes a capital structure and debt cost that is consistent with those approved by the CPUC in March 2018 in connection with GSWC's water segment cost of capital proceeding. Furthermore, the decision (i) extends the rate cycle by one year (new rates will be effective for 2018 – 2022); (ii) increases the electric gross margin for 2018 by approximately $2.0 million compared to the 2017 adopted electric gross margin, adjusted for Tax Act changes; (iii) authorizes BVES to construct all the capital projects requested in its application and provides additional funding for the fifth year added to the rate cycle, which total approximately $44 million of capital projects over the 5-year rate cycle; and (iv) increases the adopted electric gross margin by $1.2 million for each of the years 2019 and 2020, by $1.1 million in 2021, and by $1.0 million in 2022. The rate increases for 2019 – 2022 are not subject to an earnings test.

Due to the delay in finalizing the electric general rate case, electric revenues recognized during 2018 and the first six months of 2019 were based on 2017 adopted rates. Because the CPUC final decision is retroactive to January 1, 2018, the cumulative retroactive earnings impact of the decision is included in the third quarter results of 2019, including approximately $0.03 per share related to the first six months of 2019, and $0.04 per share relating to the full year ended December 31, 2018.

California Assembly Bill No. 1054:

On July 12, 2019, the governor of California signed Assembly Bill No. 1054 (“AB 1054”), the provisions of which took effect immediately. Among other things, AB 1054 provides a framework for electrical corporations to recover costs and expenses arising from a covered wildfire, as defined, and to allow cost recovery from ratepayers in particular circumstances. The bill also establishes a Wildfire Fund to pay eligible claims arising from a covered wildfire under certain circumstances. The Wildfire Fund is expected to be funded partially by electrical corporation shareholders, and partly by ratepayers. California's three largest electric utilities are participating in the Wildfire Fund. Other investor-owned electric utilities (referred to as “regional” utilities), including GSWC's BVES division have decided not to participate. It is highly unlikely that the Wildfire Fund will have any financial value for regional utilities such as BVES because withdrawals by a regional utility are capped per wildfire at three times the regional utility’s aggregate initial and annual contributions and withdrawals may only be made if and to the extent that the amount of the claims against the utility (which must be settled or finally adjudicated) in a given year exceed the greater of the amount of the utility’s insurance or $1 billion dollars. It is remote that claims from a wildfire will reach the $1 billion minimum, and if they did, the claims would likely exceed the amount that the electric division would be able to access from the Wildfire Fund.

AB 1054 also requires the CPUC, when determining whether an electric utility may recover costs and expenses arising from a wildfire from ratepayers, to allow cost recovery if the costs and expenses are determined to be just and reasonable based on reasonable conduct by the electric utility. The electric utility has the burden of proof based on a preponderance of the evidence that its conduct was reasonable unless it has a valid safety certification for the time period in which the wildfire occurred or the plaintiff establishes reasonable doubt that GSWC acted reasonably. At this time, GSWC intends to seek a safety certification from the CPUC in accordance with the current procedures adopted by the CPUC. The bill also authorizes an electric utility to file an application requesting the CPUC to authorize the recovery of costs and expenses determined to be reasonable through the issuance of bonds secured by a rate component.

Contracted Services Segment:

ASUS's revenues, operating income and cash flows are earned by providing water and/or wastewater services, including operation and maintenance services and construction of facilities at the water and/or wastewater systems at various military installations, pursuant to 50-year firm fixed-price contracts. The contract price for each of these 50-year contracts is subject to annual economic price adjustments. Additional revenues generated by contract operations are primarily dependent on new construction activities under contract modifications with the U.S. government or agreements with other third-party prime contractors.

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 and a detailed inventory study. The 50-year contract is subject to annual economic price adjustments.

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		
	9/30/2019	9/30/2018	CHANGE
Water	$ 0.53	$ 0.47	$ 0.06
Electric (excluding retroactive impact of CPUC decision on general rate case)	0.03	0.02	0.01
Contracted services	0.12	0.13	(0.01)
AWR (parent)	0.01	—	0.01
Consolidated diluted earnings per share, adjusted	0.69	0.62	0.07
Retroactive impact of CPUC decision in the electric general rate case for first six months of 2019 and full year of 2018	0.07	—	0.07
Consolidated diluted earnings per share, as reported	$ 0.76	$ 0.62	$ 0.14

Water Segment:

Diluted earnings per share from the water segment for the three months ended September 30, 2019 increased by $0.06 per share as compared to the same period in 2018. The following items affected the comparability between the two periods (excluding the impact of billed surcharges, which have no impact to net earnings):

- An increase in the water gross margin increased earnings by approximately $0.06 per share largely as a result of the May 2019 CPUC decision on the general rate case, which approved new water rates and adopted supply costs for 2019. As previously discussed, the 2019 water revenue requirement has also been reduced to reflect a decrease in 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 as discussed below, resulting in no impact to net earnings.
- An overall decrease in operating expenses (excluding supply costs), which positively impacted earnings by $0.02 per share mostly due to lower depreciation and administrative and general expenses. As discussed above, the lower depreciation expense is reflected in the new revenue requirement approved in the general rate case. The decrease in administrative and general expenses was due, in large part, to timing differences related to the recognition of stock-based compensation expense. These decreases were partially offset by higher maintenance expense, and property and other taxes.
- A decrease in the gains generated during the three months ended September 30, 2019 on Registrant's investments held to fund a retirement benefit plan due to market conditions as well as an increase in interest expense, decreased water earnings by approximately $0.01 per share, as compared to the same period of 2018.
- Changes in the effective income tax rate resulting from certain flow-through taxes and permanent items for the three months ended September 30, 2019 as compared to the same period in 2018, decreased earnings at the water segment by approximately $0.01 per share.

Electric Segment:

In August 2019, the CPUC issued a final decision on the electric general rate case, which sets new rates for the years 2018 through 2022. Since the new rates were retroactive to January 1, 2018, the impact of the new electric rates for the first six months of 2019 and all of 2018 are reflected in the results for the third quarter of 2019. Of the electric segment's $0.10 recorded earnings per share for the three months ended September 30, 2019, approximately $0.03 per share relates to the first six months of 2019, and $0.04 per share relates to the full year ended December 31, 2018, for a total of $0.07 per share, which is shown on a separate line in the table above.

Excluding this retroactive impact, for the three months ended September 30, 2019, diluted earnings from the electric segment were $0.03 per share as compared to $0.02 per share for the same period in 2018. There was an increase in the electric gross margin as a result of new rates authorized by the CPUC's August final decision, partially offset by an increase in the effective income tax rate as compared to the same period in 2018 resulting from certain flow-through taxes.

Contracted Services Segment:

For the three months ended September 30, 2019, diluted earnings from the contracted services segment were $0.12 per share as compared to $0.13 per share for the same period in 2018. The decrease was largely due to differences in the timing of construction work performed in 2019 as compared to 2018.

AWR (parent):

For the three months ended September 30, 2019, diluted earnings at AWR (parent) increased $0.01 per share due primarily to lower state unitary taxes.

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		
	9/30/2019	9/30/2018	CHANGE
Water	$ 1.33	$ 1.02	$ 0.31
Electric (excluding retroactive impact of CPUC decision on general rate case)	0.11	0.08	0.03
Contracted services	0.34	0.24	0.10
AWR (parent)	0.01	0.01	—
Consolidated diluted earnings per share, adjusted	1.79	1.35	0.44
Retroactive impact of CPUC decision in the electric general rate case related to the full year of 2018	0.04	—	0.04
Consolidated diluted earnings per share, as reported	$ 1.83	$ 1.35	$ 0.48

Water Segment:

Diluted earnings per share from the water segment for the nine months ended September 30, 2019 increased by $0.31 per share as compared to the same period in 2018 largely due to the approval of the water general rate case in May 2019. Also, included in the earnings for the nine months ended September 30, 2019 was a $1.1 million reduction to administrative and general expense, positively impacting earnings by $0.02 per share, to reflect the CPUC's approval for recovery of costs previously expensed as incurred and tracked in memorandum accounts. Excluding this $0.02 per share impact, diluted earnings per share from the water segment for the nine months ended September 30, 2019 increased by $0.29 per share due to the following items (excluding billed surcharges):

- An increase in the water gross margin of $0.17 per share, as a result of new rates authorized by the CPUC's final decision on the water general rate case and retroactive to January 1, 2019.
- An overall decrease in operating expenses (excluding supply costs), positively impacting earnings by $0.08 per share due, in large part, to lower depreciation expense resulting from lower authorized composite rates recently approved in the water general rate case. The decrease in depreciation expense from lower adopted composite rates also lowers the adopted water gross margin, resulting in no impact to net earnings. There was also a decrease in maintenance expense, which is expected to increase during the remainder of 2019.
- An increase in interest and other income, net of interest expense, of $0.02 per share due to higher gains generated during the nine months ended September 30, 2019 on Registrant's investments held to fund a retirement benefit plan, as compared to the same period of 2018 due to market conditions.
- Changes in the effective income tax rate resulting from certain flow-through taxes and permanent items for the nine months ended September 30, 2019 as compared to the same period in 2018, increased earnings at the water segment by approximately $0.02 per share.

Electric Segment:

The CPUC's August 2019 final decision on the electric general rate case set new rates for 2018 through 2022 and is retroactive to January 1, 2018. As a result, the retroactive impact of the new electric rates for all of fiscal 2018 is reflected in the results for the nine months ended September 30, 2019. Of the electric segment's $0.15 earnings per share for the nine months ended September 30, 2019, approximately $0.04 per share relates to the full year ended December 31, 2018, which is shown on a separate line in the table above.

Excluding this retroactive impact, for the nine months ended September 30, 2019, diluted earnings from the electric segment were $0.11 per share as compared to $0.08 per share for the same period in 2018. The increase was due to a higher electric gross margin as a result of new rates authorized by the CPUC's August final decision, partially offset by a higher effective income tax rate as compared to the nine months ended September 30, 2018 due to changes in certain flow-through taxes.

Contracted Services Segment:

For the nine months ended September 30, 2019, diluted earnings per share from the contracted services segment were $0.34 per share as compared to $0.24 per share for the same period in 2018 due, in part, to the commencement of operations at Fort Riley in July 2018. There was also an increase in management fees and construction revenues at several other military bases due to the successful resolution of various price adjustments and an overall increase in construction activity compared to the same period in 2018, respectively.

The following discussion and analysis for the three and nine months ended September 30, 2019 and 2018 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, 2019 and 2018 (amounts in thousands, except per share amounts):

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 95,249	$ 87,689	$ 7,560	8.6 %
Electric	11,996	7,875	4,121	52.3 %
Contracted services	27,251	28,618	(1,367)	(4.8)%
Total operating revenues	134,496	124,182	10,314	8.3 %
OPERATING EXPENSES				
Water purchased	23,361	21,842	1,519	7.0 %
Power purchased for pumping	3,042	3,217	(175)	(5.4)%
Groundwater production assessment	5,634	5,961	(327)	(5.5)%
Power purchased for resale	2,403	2,647	(244)	(9.2)%
Supply cost balancing accounts	(2,680)	(5,212)	2,532	(48.6)%
Other operation	8,267	8,355	(88)	(1.1)%
Administrative and general	20,626	21,570	(944)	(4.4)%
Depreciation and amortization	9,006	10,118	(1,112)	(11.0)%
Maintenance	4,109	3,422	687	20.1 %
Property and other taxes	5,234	4,692	542	11.6 %
ASUS construction	12,894	13,620	(726)	(5.3)%
Gain on sale of assets	(124)	(25)	(99)	*
Total operating expenses	91,772	90,207	1,565	1.7 %
OPERATING INCOME	42,724	33,975	8,749	25.8 %
OTHER INCOME AND EXPENSES				
Interest expense	(6,279)	(5,948)	(331)	5.6 %
Interest income	826	641	185	28.9 %
Other, net	140	1,223	(1,083)	(88.6)%
	(5,313)	(4,084)	(1,229)	30.1 %
INCOME BEFORE INCOME TAX EXPENSE	37,411	29,891	7,520	25.2 %
Income tax expense	9,405	6,939	2,466	35.5 %
NET INCOME	$ 28,006	$ 22,952	$ 5,054	22.0 %
Basic earnings per Common Share	$ 0.76	$ 0.62	$ 0.14	22.6 %
Fully diluted earnings per Common Share	$ 0.76	$ 0.62	$ 0.14	22.6 %

* not meaningful

Operating Revenues:

General

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.

Water

For the three months ended September 30, 2019, revenues from water operations increased $7.6 million to $95.2 million as compared to the same period in 2018 due primarily to new water rates approved in the May 2019 CPUC decision, which were retroactive to January 1, 2019. There were also revenue increases related to CPUC-approved surcharges to recover previously incurred costs as well as to cover increases in supply costs experienced in most ratemaking areas. These surcharges are largely offset by corresponding increases in operating expenses, resulting in an immaterial impact to earnings.

Billed water consumption for the third quarter of 2019 decreased by approximately 5% as compared to the same period in 2018. In general, changes in consumption do not have a significant impact on recorded revenues due to the CPUC-approved Water Revenue Adjustment Mechanism ("WRAM") in place in all but one small rate-making area. 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.

Electric

Electric revenues for the three months ended September 30, 2019 increased $4.1 million to $12.0 million, due to new rates approved in the August 2019 CPUC final decision on the electric general rate case, which was retroactive to January 1, 2018. Included in the $12.0 million of electric revenues was approximately $3.7 million relating to periods prior to the third quarter of 2019.

Billed electric usage during the three months ended September 30, 2019 decreased by approximately 3% as compared to the three months ended September 30, 2018. Due to the CPUC-approved Base Revenue Requirement Adjustment Mechanism ("BRRAM"), which adjusts certain revenues to adopted levels authorized by the CPUC, changes in usage do not have a significant impact on earnings.

Contracted Services

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 at various military bases. For the three months ended September 30, 2019, revenues from contracted services decreased $1.4 million to $27.3 million as compared to $28.6 million for the same period in 2018 largely due to differences in timing of construction work performed in 2019 as compared to 2018.

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 2019, ASUS has been awarded approximately $20.5 million in new construction projects, which have been or are expected to be completed during 2019 and 2020. 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 34.6% and 31.5% of total operating expenses for the three months ended September 30, 2019 and 2018, respectively.

The table below provides the amounts (in thousands) of increases (decreases) and percent changes in water and electric revenues, supply costs and gross margin during the three months ended September 30, 2019 and 2018. There was a $963,000 increase in surcharges recorded in water revenues to recover previously incurred costs, which 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, resulting in no impact to earnings.

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	$ CHANGE	% CHANGE
WATER OPERATING REVENUES (1)	$ 95,249	$ 87,689	$ 7,560	8.6 %
WATER SUPPLY COSTS:				
Water purchased (1)	$ 23,361	$ 21,842	$ 1,519	7.0 %
Power purchased for pumping (1)	3,042	3,217	(175)	(5.4)%
Groundwater production assessment (1)	5,634	5,961	(327)	(5.5)%
Water supply cost balancing accounts (1)	(3,330)	(5,639)	2,309	(40.9)%
TOTAL WATER SUPPLY COSTS	$ 28,707	$ 25,381	$ 3,326	13.1 %
WATER GROSS MARGIN (2)	$ 66,542	$ 62,308	$ 4,234	6.8 %
ELECTRIC OPERATING REVENUES (1)	$ 11,996	$ 7,875	$ 4,121	52.3 %
ELECTRIC SUPPLY COSTS:				
Power purchased for resale (1)	$ 2,403	$ 2,647	$ (244)	(9.2)%
Electric supply cost balancing accounts (1)	650	427	223	52.2 %
TOTAL ELECTRIC SUPPLY COSTS	$ 3,053	$ 3,074	$ (21)	(0.7)%
ELECTRIC GROSS MARGIN (2)	$ 8,943	$ 4,801	$ 4,142	86.3 %

(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 in AWR's Consolidated Statements of Income and totaled $(2,680,000) and $(5,212,000) for the three months ended September 30, 2019 and 2018, respectively. Revenues include surcharges, which increase 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 the three months ended September 30, 2019 and 2018 were approximately 47% and 43%, respectively, as compared to the authorized adopted percentages of 39% and 30% for the three months ended September 30, 2019 and 2018, respectively. The higher actual percentage of purchased water as compared to the adopted percentage resulted from a higher volume of purchased water costs due to several wells being out of service. Purchased water costs for the three months ended September 30, 2019 increased to $23.4 million as compared to $21.8 million for the same period in 2018. The decrease in power purchased for pumping as well as groundwater production assessments were due to a higher mix of purchased water as compared to pumped water.

The under-collection balance in the water supply cost balancing account decreased by $2.3 million during the three months ended September 30, 2019 as compared to the same period in 2018 mainly due to updated adopted supply cost expenses from the approved water general rate case, resulting in a lower under-collection in the water supply cost balancing account.

For the three months ended September 30, 2019, the cost of power purchased for resale to BVES's customers decreased to $2.4 million as compared to $2.6 million during the same period in 2018. The over-collection in the electric supply cost balancing account increased as compared to the three months ended September 30, 2018 due to a decrease in the average price per megawatt-hour ("MWh"). The average price per MWh, including fixed costs, decreased from $81.95 for the three months ended September 30, 2018 to $77.48 for the same period in 2019.

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 as well as the electric system. Registrant's contracted services operations incur many of the same types of expenses as well. For the three months ended September 30, 2019 and 2018, other operation expenses by business segment consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 6,203	$ 5,820	$ 383	6.6 %
Electric Services	526	750	(224)	(29.9)%
Contracted Services	1,538	1,785	(247)	(13.8)%
Total other operation	$ 8,267	$ 8,355	$ (88)	(1.1)%

For the three months ended September 30, 2019, other operation expense at the water segment increased due to higher surcharges billed for recovery of costs as compared to the same period in 2018. Excluding the increase in surcharges, which have no impact to earnings, other operation expenses at the water segment decreased by $50,000.

For the three months ended September 30, 2019, total other operation expenses for the electric segment decreased due to lower outside service costs and bad debt expense, while the $247,000 decrease at the contracted services segment was due to lower operation-related labor costs.

Administrative and General

Administrative and general expenses include payroll related to administrative and general functions, all 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, 2019 and 2018, administrative and general expenses by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 13,473	$ 14,268	$ (795)	(5.6)%
Electric Services	1,732	2,099	(367)	(17.5)%
Contracted Services	5,418	5,201	217	4.2 %
AWR (parent)	3	2	1	50.0 %
Total administrative and general	$ 20,626	$ 21,570	$ (944)	(4.4)%

For the three months ended September 30, 2019, administrative and general expenses at the water segment decreased by $795,000 due primarily to timing differences related to the recognition of stock-based compensation expense recorded in accordance with the respective accounting guidance. This decrease was partially offset by higher labor, other employee-related benefits and outside services costs, as well as an increase in surcharges billed for the recovery of administrative and general expenses as compared to the same period in 2018, which have no impact to earnings,

The decrease in administrative and general expenses at the electric segment was due to lower outside service and regulatory expenses.

For the three months ended September 30, 2019, the increase in administrative and general expenses for the contracted services segment was due to higher labor and labor-related costs, an increase in legal and outside service costs, and a greater proportion of shared services cost allocated to ASUS pursuant to the water general rate case decision.

Depreciation and Amortization

For the three months ended September 30, 2019 and 2018, depreciation and amortization by business segment consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 7,690	$ 9,058	$ (1,368)	(15.1)%
Electric Services	669	565	104	18.4 %
Contracted Services	647	495	152	30.7 %
Total depreciation and amortization	$ 9,006	$ 10,118	$ (1,112)	(11.0)%

The May 2019 CPUC final decision in the water general rate case approved lower overall composite depreciation rates based on a revised depreciation study. The decrease in composite depreciation rates lowers the water gross margin, with a corresponding decrease in depreciation expense, resulting in no impact to net earnings. The decrease in depreciation expense resulting from the new composite rates was partially offset by increased depreciation from additions to utility plant.

The increases in depreciation expense at the electric and contracted services segments were due to plant additions in 2018 and 2019.

Maintenance

For the three months ended September 30, 2019 and 2018, maintenance expense by business segment consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 3,383	$ 2,421	$ 962	39.7 %
Electric Services	40	288	(248)	(86.1)%
Contracted Services	686	713	(27)	(3.8)%
Total maintenance	$ 4,109	$ 3,422	$ 687	20.1 %

Maintenance expense at the water segment increased due to higher planned and unplanned maintenance as compared to the same period in 2018. Maintenance expense at the water segment is expected to continue increasing during the remainder of 2019.

For the three months ended September 30, 2019, the decrease in maintenance expense for the electric segment includes a $302,000 reduction to reflect the recovery of previously incurred costs approved by the CPUC in August 2019.

Property and Other Taxes

For the three months ended September 30, 2019 and 2018, property and other taxes by business segment consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 4,483	$ 4,033	$ 450	11.2%
Electric Services	304	267	37	13.9%
Contracted Services	447	392	55	14.0%
Total property and other taxes	$ 5,234	$ 4,692	$ 542	11.6%

Property and other taxes increased overall due, in part, to capital additions at the water segment. There was also an increase in local franchise fees paid to various municipalities and counties, which are derived based on revenues and utility plant. With the approval of the new water rate case, the increase in franchise fees is reflected in the newly adopted revenue requirement.

ASUS Construction

For the three months ended September 30, 2019, construction expenses for contracted services were $12.9 million, decreasing $726,000 compared to the same period in 2018 due primarily to differences in the timing of construction work performed during 2019 as compared to 2018.

Interest Expense

For the three months ended September 30, 2019 and 2018, interest expense by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 5,652	$ 5,472	$ 180	3.3%
Electric Services	334	309	25	8.1%
Contracted Services	137	73	64	87.7%
AWR (parent)	156	94	62	66.0%
Total interest expense	$ 6,279	$ 5,948	$ 331	5.6%

The overall increase in interest expense is due to higher average borrowings as well as higher interest rates on the revolving credit facility as compared to 2018. In March 2019, AWR exercised an option in the credit facility to increase its borrowing capacity from $150.0 million to $200.0 million. Borrowings made during 2019 were used to repay $40.0 million of GSWC's 6.70% senior note, which matured in March 2019, as well as to fund a portion of GSWC's capital expenditures.

Interest Income

For the three months ended September 30, 2019 and 2018, interest income by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 446	$ 433	$ 13	3.0%
Electric Services	100	18	82	455.6%
Contracted Services	281	191	90	47.1%
AWR (parent)	(1)	(1)	—	—%
Total interest income	$ 826	$ 641	$ 185	28.9%

The increase in interest income during the three months ended September 30, 2019 was largely due to interest income recognized on certain initial construction projects performed by the contracted services segment at Fort Riley during the three months ended September 30, 2019, as well as interest related to regulatory assets for the electric segment as a result of the August 2019 CPUC final decision.

Other, net

For the three months ended September 30, 2019, other income decreased due to lower gains recorded on Registrant's investments held for a retirement benefit plan because of recent market conditions as compared to the same period in 2018. There was also an increase in the non-service cost components of net periodic benefit costs related to Registrant's defined benefit pension plan 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.

Income Tax Expense

For the three months ended September 30, 2019 and 2018, income tax expense by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 6,720	$ 5,247	$ 1,473	28.1 %
Electric Services	1,663	167	1,496	895.8 %
Contracted Services	1,391	1,606	(215)	(13.4)%
AWR (parent)	(369)	(81)	(288)	355.6 %
Total income tax expense	$ 9,405	$ 6,939	$ 2,466	35.5 %

Consolidated income tax expense for the three months ended September 30, 2019 increased by $2.5 million due primarily to an increase in pretax income, largely due to new water rates as well as the retroactive impact of the electric general rate case. AWR's effective income tax rate ("ETR") was 25.1% and 23.2% for the three months ended September 30, 2019 and 2018, respectively. The increase was due primarily to the increase in GSWC's ETR, which was 26.4% and 23.2% for the three months ended September 30, 2019 and 2018, respectively, resulting primarily from changes in certain flow-through items. Partially offsetting the increase in GSWC's ETR were lower state taxes at AWR (parent).

Consolidated Results of Operations — Nine Months Ended September 30, 2019 and 2018 (amounts in thousands, except per share amounts):

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 248,112	$ 228,834	$ 19,278	8.4 %
Electric	30,033	25,548	4,485	17.6 %
Contracted services	82,731	71,429	11,302	15.8 %
Total operating revenues	360,876	325,811	35,065	10.8 %
OPERATING EXPENSES				
Water purchased	55,263	52,057	3,206	6.2 %
Power purchased for pumping	6,562	7,141	(579)	(8.1)%
Groundwater production assessment	14,020	15,146	(1,126)	(7.4)%
Power purchased for resale	8,498	8,439	59	0.7 %
Supply cost balancing accounts	(2,845)	(11,110)	8,265	(74.4)%
Other operation	24,546	24,125	421	1.7 %
Administrative and general	61,827	62,076	(249)	(0.4)%
Depreciation and amortization	26,493	29,794	(3,301)	(11.1)%
Maintenance	9,728	10,921	(1,193)	(10.9)%
Property and other taxes	15,000	13,863	1,137	8.2 %
ASUS construction	39,671	35,168	4,503	12.8 %
Gain on sale of assets	(236)	(43)	(193)	*
Total operating expenses	258,527	247,577	10,950	4.4 %
OPERATING INCOME	102,349	78,234	24,115	30.8 %
OTHER INCOME AND EXPENSES				
Interest expense	(18,878)	(17,919)	(959)	5.4 %
Interest income	2,644	1,813	831	45.8 %
Other, net	2,073	1,844	229	12.4 %
	(14,161)	(14,262)	101	(0.7)%
INCOME BEFORE INCOME TAX EXPENSE	88,188	63,972	24,216	37.9 %
Income tax expense	20,546	13,890	6,656	47.9 %
NET INCOME	$ 67,642	$ 50,082	$ 17,560	35.1 %
Basic earnings per Common Share	$ 1.83	$ 1.36	$ 0.47	34.6 %
Fully diluted earnings per Common Share	$ 1.83	$ 1.35	$ 0.48	35.6 %

* not meaningful

Operating Revenues:

Water

For the nine months ended September 30, 2019, revenues from water operations increased $19.3 million to $248.1 million as compared to the same period in 2018 as a result of new CPUC-approved water rates effective January 1, 2019 as part of the May 2019 general rate case final decision. There were also revenue increases related to CPUC-approved surcharges to recover previously incurred costs as well as to cover increases in supply costs experienced in most ratemaking areas. These surcharges are largely offset by corresponding increases in operating expenses, resulting in an immaterial impact to earnings. The increase in surcharge revenues was offset by a corresponding increase in operating expenses (primarily administrative and general), also resulting in no impact to earnings.

Billed water consumption for the first nine months of 2019 decreased approximately 8% as compared to the same period in 2018. Changes in consumption generally do not have a significant impact on revenues due to the WRAM.

Electric

For the nine months ended September 30, 2019, revenues from electric operations were $30.0 million as compared to $25.5 million for the same period in 2018 due to new rates approved in the August 2019 CPUC final decision on the electric general rate case, which were retroactive to January 1, 2018. Included in revenues for the nine months ended September 30, 2019 was approximately $2.3 million which related to the full year of 2018.

Billed electric usage increased by approximately 4% during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. Due to the CPUC-approved BRRAM, 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, 2019, revenues from contracted services increased $11.3 million to $82.7 million as compared to $71.4 million for the same period in 2018, primarily due to the commencement of operations at Fort Riley in July 2018. There was also an increase in management fees and construction revenues at various other military bases served.

Operating Expenses:

Supply Costs

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for approximately 31.5% and 28.9% of total operating expenses for the nine months ended September 30, 2019 and 2018, respectively. The following table 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, 2019 and 2018 (dollar amounts in thousands). There was an increase in surcharges of $497,000 recorded in water revenues, which did not impact water earnings. Surcharges are recorded to revenues when billed to customers and are offset by a corresponding increase in operating expenses, resulting in no impact to earnings.

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	$ CHANGE	% CHANGE
WATER OPERATING REVENUES (1)	$ 248,112	$ 228,834	$ 19,278	8.4 %
WATER SUPPLY COSTS:				
Water purchased (1)	$ 55,263	$ 52,057	$ 3,206	6.2 %
Power purchased for pumping (1)	6,562	7,141	(579)	(8.1)%
Groundwater production assessment (1)	14,020	15,146	(1,126)	(7.4)%
Water supply cost balancing accounts (1)	(4,758)	(12,478)	7,720	(61.9)%
TOTAL WATER SUPPLY COSTS	$ 71,087	$ 61,866	$ 9,221	14.9 %
WATER GROSS MARGIN (2)	$ 177,025	$ 166,968	$ 10,057	6.0 %
ELECTRIC OPERATING REVENUES (1)	$ 30,033	$ 25,548	$ 4,485	17.6 %
ELECTRIC SUPPLY COSTS:				
Power purchased for resale (1)	$ 8,498	8,439	$ 59	0.7 %
Electric supply cost balancing accounts (1)	1,913	1,368	545	39.8 %
TOTAL ELECTRIC SUPPLY COSTS	$ 10,411	$ 9,807	$ 604	6.2 %
ELECTRIC GROSS MARGIN (2)	$ 19,622	$ 15,741	$ 3,881	24.7 %

(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 $(2,845,000) and $(11,110,000) for the nine months ended September 30, 2019 and 2018, respectively. Revenues include surcharges, which increase 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, 2019 and 2018 were 45% and 41%, respectively, as compared to the adopted percentage of approximately 36% and 29% for the nine months ended September 30, 2019 and 2018, respectively. 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, 2019 increased to $55.3 million as compared to $52.1 million for the same period in 2018 primarily due to an increase in wholesale water costs, partially offset by a decrease in customer usage.

For the nine months ended September 30, 2019 and 2018, power purchased for pumping decreased by $579,000 due to a higher mix of purchased water as compared to pumped water. Groundwater production assessments decreased $1.1 million due to a decrease in the amount of water pumped, partially offset by higher pump tax rates for the nine months ended September 30, 2019 as compared to the same period in 2018.

The under-collection in the water supply cost balancing account decreased $7.7 million during the nine months ended September 30, 2019 as compared to the same period in 2018 mainly due to updated adopted supply cost amounts from the general rate case, resulting in a lower under-collection in the water supply cost balancing account as compared to the same period in 2018.

Other Operation

For the nine months ended September 30, 2019 and 2018, other operation expenses by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 17,681	$ 17,307	$ 374	2.2 %
Electric Services	1,962	2,116	(154)	(7.3)%
Contracted Services	4,903	4,702	201	4.3 %
Total other operation	$ 24,546	$ 24,125	$ 421	1.7 %

For the nine months ended September 30, 2019, other operation expenses at the water segment increased due primarily to an increase in surcharges, with a corresponding increase in water revenues, resulting in no impact to earnings.

Administrative and General

For the nine months ended September 30, 2019 and 2018, administrative and general expenses by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 39,090	$ 40,833	$ (1,743)	(4.3)%
Electric Services	5,887	5,860	27	0.5 %
Contracted Services	16,843	15,376	1,467	9.5 %
AWR (parent)	7	7	—	— %
Total administrative and general	$ 61,827	$ 62,076	$ (249)	(0.4)%

For the nine months ended September 30, 2019, administrative and general expenses at the water segment decreased due, in part, to a $1.1 million reduction to reflect the CPUC's approval in the May 2019 final decision on the water general rate case for recovery of previously incurred costs that were being tracked in CPUC-authorized memorandum accounts. Excluding this reduction as well as a decrease in surcharges billed during the nine months ended September 30, 2019 as compared to the same period of 2018, administrative and general costs at the water segment increased by $548,000 due primarily to higher employee-related compensation and other benefits. 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.

For the nine months ended September 30, 2019, administrative and general expenses for contracted services increased by $1.5 million as compared to the nine months ended September 30, 2018 due to labor and labor-related costs from the commencement of operations at Fort Riley as of July 1, 2018, and a greater allocation of shared services costs to ASUS pursuant to the final decision on the water general rate case.

Depreciation and Amortization

For the nine months ended September 30, 2019 and 2018, depreciation and amortization by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 22,484	$ 26,693	$ (4,209)	(15.8)%
Electric Services	1,870	1,694	176	10.4 %
Contracted Services	2,139	1,407	732	52.0 %
Total depreciation and amortization	$ 26,493	$ 29,794	$ (3,301)	(11.1)%

For the nine months ended September 30, 2019, depreciation and amortization expense for water services decreased due to lower overall composite depreciation rates approved in the water general rate case. The decrease in depreciation expense was partially offset by increased depreciation from additions to utility plant at both the water and electric segments. The decrease in composite depreciation rates lowers the water gross margin, with a corresponding decrease in depreciation expense, resulting in no impact to net earnings. The increase in depreciation for the contracted services segment was due primarily to construction vehicles and other heavy equipment additions to fixed assets, as well as the commencement of operations at Fort Riley.

Maintenance

For the nine months ended September 30, 2019 and 2018, maintenance expense by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 7,237	$ 8,236	$ (999)	(12.1)%
Electric Services	551	798	(247)	(31.0)%
Contracted Services	1,940	1,887	53	2.8 %
Total maintenance	$ 9,728	$ 10,921	$ (1,193)	(10.9)%

Maintenance expense for water services decreased due to a lower level of unplanned maintenance as compared to the same period in 2018. Maintenance expense at the water segment is expected to increase during the remainder of 2019. The decrease in maintenance expense for the electric segment reflects a $302,000 reduction recorded in connection with the CPUC's approval in the electric general rate case for recovery of previously incurred maintenance costs.

Property and Other Taxes

For the nine months ended September 30, 2019 and 2018, property and other taxes by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 12,781	$ 11,889	$ 892	7.5%
Electric Services	841	801	40	5.0%
Contracted Services	1,378	1,173	205	17.5%
Total property and other taxes	$ 15,000	$ 13,863	$ 1,137	8.2%

Property and other taxes increased overall during the nine months ended September 30, 2019 due primarily to capital additions and associated higher assessed property values.

ASUS Construction

For the nine months ended September 30, 2019, construction expenses for contracted services were $39.7 million, increasing $4.5 million compared to the same period in 2018 due to an increase in overall construction activity as compared to the same period in 2018.

Interest Expense

For the nine months ended September 30, 2019 and 2018, interest expense by business segment, including AWR (parent) consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 16,897	$ 16,352	$ 545	3.3%
Electric Services	1,088	1,045	43	4.1%
Contracted Services	426	271	155	57.2%
AWR (parent)	467	251	216	86.1%
Total interest expense	$ 18,878	$ 17,919	$ 959	5.4%

The overall increase in interest expense is due to higher average borrowings as well as higher interest rates on the revolving credit facility as compared to 2018. In March 2019, AWR exercised an option in the credit facility to increase its borrowing capacity from $150.0 million to $200.0 million. Borrowings made during 2019 were used to repay $40.0 million of GSWC's 6.70% senior note, which matured in March 2019, as well as to fund a portion of GSWC's capital expenditures.

Interest Income

For the nine months ended September 30, 2019 and 2018, interest income by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 1,342	$ 1,257	$ 85	6.8%
Electric Services	155	31	124	400.0%
Contracted Services	1,150	526	624	118.6%
AWR (parent)	(3)	(1)	(2)	N/A
Total interest income	$ 2,644	$ 1,813	$ 831	45.8%

The increase in interest income during the nine months ended September 30, 2019, was largely due to interest income recognized on certain initial construction projects performed at Fort Riley as well as interest related to regulatory assets for the electric segment as a result of the August 2019 CPUC final decision.

Other, net

For the nine months ended September 30, 2019, other income increased by $229,000 due primarily to higher gains on investments due to recent market conditions, as compared to the same period in 2018, partially offset by an increase 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 2018. 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 nine months ended September 30, 2019 and 2018, income tax expense by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	$ CHANGE	% CHANGE
Water Services	$ 15,205	$ 10,805	$ 4,400	40.7 %
Electric Services	2,124	938	1,186	126.4 %
Contracted Services	3,816	2,865	951	33.2 %
AWR (parent)	(599)	(718)	119	(16.6)%
Total income tax expense	$ 20,546	$ 13,890	$ 6,656	47.9 %

Consolidated income tax expense for the nine months ended September 30, 2019 increased due to an increase in pretax income. AWR's consolidated ETR increased to 23.3% for the nine months ended September 30, 2019 as compared to 21.7% for the nine months ended September 30, 2018. GSWC's ETR during the nine months ended September 30, 2019 was 24.1% as compared to 22.5% for the nine months ended September 30, 2018 due, in part, to changes in certain flow taxes.

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, 2018. There have been no material changes to Registrant's critical accounting policies. Registrant adopted the new lease guidance beginning January 1, 2019 as further described in Note 10 of the Notes to Consolidated Financial Statements.

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 $245.5 million was available on September 30, 2019 to pay dividends to AWR. The ability of ASUS to pay dividends to AWR is also restricted by California law and by the ability of its subsidiaries to pay dividends to it.

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 borrows under a credit facility, which expires in May 2023, and provides funds to its subsidiaries, GSWC and ASUS, in support of their operations. In March 2019, AWR amended this credit facility to increase its borrowing capacity from $150.0 million to $200.0 million. As of September 30, 2019, there was $194.5 million outstanding under this facility. On October 31, 2019, AWR further amended its credit facility to temporarily increase its borrowing capacity by $25 million, from $200.0 million to $225.0 million, effective through June 30, 2020. Management intends to obtain additional financing during 2020 by issuing long-term debt at GSWC. GSWC intends to use the proceeds from any additional long-term debt to reduce its intercompany borrowings and to partially fund capital expenditures. AWR parent intends to use any financing proceeds from GSWC to pay down the amounts outstanding under its credit facility.

During the nine months ended September 30, 2019, GSWC incurred $100.3 million in company-funded capital expenditures. During 2019, Registrant's company-funded capital expenditures are estimated to be approximately $115 - $125 million.

In April 2019, 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 May 2019, Moody's Investors Service ("Moody's") affirmed its A2 rating with a revised outlook from positive to stable 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 A+ credit rating, 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.

AWR's ability to pay cash dividends on its Common Shares outstanding depends primarily upon cash flows from its subsidiaries. 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 29, 2019, AWR's Board of Directors approved a fourth quarter dividend of $0.305 per share on AWR's Common Shares. Dividends on the Common Shares will be paid on December 2, 2019 to shareholders of record at the close of business on November 15, 2019.

Registrant's current liabilities may at times exceed its current assets. Management believes that internally generated funds along with borrowings from AWR's credit facility are adequate to provide sufficient capital to maintain normal operations and to meet its capital and financing requirements.

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 and construction expenses at ASUS, and to 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; 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 and any adjustments arising out of an audit or investigation by federal governmental agencies.

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 borrow and/or issue equity securities. The most significant provisions of the Tax Act impacting GSWC was 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 adopted revenue requirement was tracked in a memorandum account effective January 1, 2018. On July 1, 2018, new lower water rates, which incorporate the new federal income tax rate, were implemented for all water ratemaking areas. As a result of receiving the May 2019 CPUC final decision on the water general rate case, in the third quarter of 2019 GSWC refunded to water customers approximately $7.2 million of over-collections recorded in this memorandum account as a one-time surcredit.

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. Cash generated by operations varies during the year. Net cash provided by operating activities of Registrant was $84.3 million for the nine months ended September 30, 2019 as compared to $108.4 million for the same period in 2018. There was a decrease in cash receipts due to lower water customer usage, delays in receiving decisions on the water and electric general rate cases and also the refunding of $7.2 million to water customers during the third quarter of 2019 related to the Tax Act. The decrease in water customer usage increases the under-collection balance in the WRAM regulatory asset, which is filed annually for recovery. 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 $110.7 million for the nine months ended September 30, 2019 as compared to $88.8 million for the same period in 2018, due to an increase in capital expenditures during the first nine months of 2019. 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, GSWC also receives customer advances (net of refunds) for, and contributions in aid of, construction. Borrowings on Registrant's credit facility are used to fund capital expenditures until long-term financing is arranged.

Net cash provided by financing activities was $29.6 million for the nine months ended September 30, 2019 as compared to cash used in financing activities of $17.9 million during the same period in 2018. This increase in cash was due to an increase in borrowings under Registrant's revolving credit facility during the nine months ended September 30, 2019. The increased borrowings were used to repay $40.0 million of GSWC's 6.70% senior note, which matured in March 2019, and to fund a portion of capital expenditures.

GSWC

GSWC funds its operating expenses, payments on its debt, 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 borrowings from AWR, and long-term debt to help fund a portion of its construction expenditures. On October 31, 2019, AWR amended its credit facility to temporarily increase its borrowing capacity by $25 million, from $200.0 million to $225.0 million, effective through June 30, 2020. Management intends to obtain additional financing during 2020 by issuing long-term debt at GSWC. GSWC intends to use the proceeds from any additional long-term debt to reduce its intercompany borrowings and to partially fund capital 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 that 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.

Cash generated from operating activities is expected to increase due to new water and electric rates and surcharges implemented as a result of the CPUC final decisions on the water and electric general rate cases issued in May and August of 2019, respectively.

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, borrowings from AWR and Common Share issuances to AWR will be adequate to provide sufficient capital to enable GSWC to maintain normal operations and to meet its capital and financing requirements pending recovery of costs in rates.

Cash Flows from Operating Activities:

Net cash provided by operating activities was $69.0 million for the nine months ended September 30, 2019 as compared to $93.8 million for the same period in 2018. There was a decrease in cash receipts due to lower water customer usage, delays in receiving decisions on the water and electric general rate cases and also the refunding of $7.2 million to water customers during the third quarter of 2019 related to the Tax Act. The decrease in water customer usage increases the under-collection balance in the WRAM regulatory asset, which is filed annually for recovery. 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 $104.4 million for the nine months ended September 30, 2019 as compared to $80.7 million for the same period in 2018. Cash used for capital expenditures was $104.8 million for the nine months ended September 30, 2019 as compared to $79.2 million during the same period in 2018. During 2019, GSWC's company-funded capital expenditures are estimated to be approximately $115 - $125 million.

Cash Flows from Financing Activities:

Net cash provided by financing activities was $35.7 million for the nine months ended September 30, 2019 as compared to cash used of $13.1 million for the same period in 2018. The increase in cash from financing activities was due to an increase in intercompany borrowings during the nine months ended September 30, 2019, which were used to repay $40.0 million of GSWC's 6.70% senior note, which matured in March 2019, and to fund a portion of GSWC's capital expenditures.

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, 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, 2018 for a detailed discussion of contractual obligations and other commitments. In September 2019, GSWC entered into new purchase power agreements as further described in *Note 5 of the Notes to Consolidated Financial Statements,* increasing GSWC's total purchase power commitments to $28.0 million. In March 2019, GSWC repaid $40 million of its 6.70% senior note. Effective January 1, 2019, Registrant adopted the new lease standard as further described in *Note 10 of the Notes to Consolidated Financial Statements*.

Contracted Services

Under the terms of its 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, maintaining, 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 2019/2020 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.

Regulatory Matters

General Rate Cases and Other Filings:

Water Segment:

In July 2017, GSWC filed a general rate case application for all of its water regions and the general office to determine new rates for the years 2019 - 2021. On May 30, 2019, the CPUC issued a final decision which authorizes GSWC to invest approximately $334.5 million over the rate cycle. The $334.5 million of infrastructure investment 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 new rates approved are expected to increase the water gross margin for 2019 by approximately $7.1 million, adjusted for updated inflation index values since the August 2018 settlement, as compared to the 2018 adopted water gross margin. The 2019 water revenue requirement has been reduced to reflect 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, with a corresponding decrease in depreciation expense, resulting in no impact to net earnings. In addition, the 2019 water revenue requirement includes a decrease of approximately $2.2 million for excess deferred tax refunds as a result of the Tax Act, with a corresponding decrease in income tax expense resulting in no impact to net earnings. Had depreciation expense remained the same as the 2018 adopted amount and there were no excess deferred tax refunds that lowered the 2019 revenue requirement, the water gross margin for 2019 would have increased by approximately $16.3 million.

As result of the May 2019 CPUC final decision, GSWC implemented new water rates on June 8, 2019. The new rates are retroactive to January 1, 2019. Due to the delay in receiving a final decision by the CPUC, billed water revenues up to June 8, 2019 were based on 2018 adopted rates. Because the new rates are retroactive to January 1, 2019, the cumulative retroactive impact of the CPUC decision was recorded during the second quarter of 2019. The final decision also approved the recovery of previously incurred costs that were being tracked in CPUC-authorized memorandum accounts. Surcharges have been implemented to recover the rate difference between billed water revenues through June 8, 2019, and final rates authorized by the CPUC, retroactive to January 1, 2019, over 12 to 24 months.

In December 2017, the Tax Act was signed into federal law and was generally effective January 1, 2018. The most significant provisions of the Tax Act impacting GSWC was 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 adopted revenue requirement was tracked in a memorandum account effective January 1, 2018. On July 1, 2018, new lower water rates, which incorporate the new federal income tax rate, were implemented for all water ratemaking areas. As a result of receiving the May 2019 CPUC final decision on the water general rate case, during the third quarter of 2019 GSWC refunded to water customers approximately $7.2 million of over-collections recorded in this memorandum account.

The final decision also allows for potential additional water revenue increases in 2020 and 2021 of approximately $9.1 million (based on current inflationary index values) and $12.0 million, respectively, subject to the results of an earnings test and changes to the forecasted inflationary index values.

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.

On August 15, 2019, the CPUC issued a final decision on this general rate case which, among other things, authorizes a new return on equity for GSWC's electric segment of 9.60%, as compared to its previously authorized return of 9.95%. The decision also includes a capital structure and debt cost that is consistent with those approved by the CPUC in March 2018 in connection with GSWC's water segment cost of capital proceeding. Furthermore, the decision (i) extends the rate cycle by one year (new rates will be effective for 2018 - 2022); (ii) increases the electric gross margin for 2018 by approximately $2.0 million compared to the 2017 adopted electric gross margin, adjusted for the Tax Act changes; (iii) authorizes BVES to construct all the capital projects requested in its application and provides additional funding for the fifth year added to the rate cycle, which total approximately $44 million of capital projects over the 5-year rate cycle; and (iv) increases the adopted electric gross margin by $1.2 million for each of the years 2019 and 2020, by $1.1 million in 2021, and by $1.0 million in 2022 (the rate increases for 2019 – 2022 are not subject to an earnings test).

Due to the delay in finalizing the electric general rate case, billed electric revenues during 2018 and the first nine months of 2019 were based on 2017 adopted rates. Because the CPUC final decision is retroactive to January 1, 2018, the cumulative retroactive earnings impact of the decision is included in the third quarter results of 2019, including approximately $0.03 per share related to the first six months of 2019, and $0.04 per share relating to the full year ended December 31, 2018.

Application to Transfer Electric Utility Operations to New Subsidiary:

GSWC filed applications with the CPUC and the Federal Energy Regulatory Commission in December 2018 and July 2019, respectively, to transfer the assets and liabilities of the BVES division of GSWC to Bear Valley Electric Service, Inc., a newly created separate legal entity and stand-alone subsidiary of AWR. Due to the differences in operations, regulations, and risks, management believes a separate electric legal entity and stand-alone subsidiary of AWR is in the best interests of customers, employees, and the communities served. This reorganization plan is subject to regulatory approvals and, if approved, is not expected to result in a substantive change to AWR's operations and business segments. On October 11, 2019, the Federal Energy Regulatory Commission approved GSWC's application for reorganization. The CPUC is scheduled to issue a final decision on this matter by the end of 2019.

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, 2018 for a 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, pursuant to 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, 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 were also present in certain fire suppression agents. These chemicals are referred to as perfluoroalkyl substances (e.g., PFOA and PFAS). Notification levels are 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. Assembly Bill 756, signed into law in July 2019 and effective in January 2020, requires, among other things, additional notification requirements for water systems detecting levels of PFAS above certain levels. GSWC is in the process of collecting and analyzing samples for PFAS under the direction of DDW. GSWC has removed some wells from service, and expects to incur additional treatment costs to treat impacted wells. GSWC has provided customers with information regarding PFAS detections, and provided updated information via its website.

Lead Testing in Schools:

In January 2017, the California State Water Resources Control Board - Division of Drinking Water (DDW) issued a permit amendment that required all community water systems to test the schools in their service area for lead, if sampling is requested in writing by the institution's officials. In addition, the California Assembly passed Assembly Bill 746 in October 2017, which required all community water systems that serve a school site of a local educational agency with a building constructed before January 1, 2010, to test for lead in the potable water system of the school site on or before July 1, 2019. GSWC worked extensively with the schools in its service areas. As a result of concerted outreach to the schools, GSWC completed lead sampling at all schools in its service area as of June 30, 2019, with the exception of one school district in the Bell-Bell Gardens system. DDW has been notified regarding the lack of response from this school district.

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, 2018 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, 2018 for a discussion of water supply issues. The discussion below focuses on significant matters and changes since December 31, 2018.

Drought Impact:

In May 2018, the California Legislature passed two bills that provide a framework for long-term water-use efficiency standards and drought planning and resiliency. The initial steps for implementing this legislation have been laid out in a summary document by the California Department of Water Resources ("DWR") and the State Water Resources Control Board ("SWRCB"). Over the next several years, State agencies, water suppliers and other entities will be working to meet the requirements and implement plans. A notable milestone is the establishment of an indoor water use standard of 55 gallons per capita per day (gpcd) until 2025, at which time the standard may be reduced to 52.5 gpcd or a new standard as recommended by DWR.

California's recent period of multi-year 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.

As of October 29, 2019, the U.S. Drought Monitor estimated that approximately 18% of California ranks as "Abnormally Dry" with 2% of the State in the rank of "Moderate Drought." This is in comparison to October of 2018 when approximately 19% of the State was considered in "Severe Drought" and 3% was in the rank of "Extreme Drought." Due to local conditions, water-use restrictions and allocations remain in place for customers in some of GSWC's service areas. GSWC continues assessing water supply conditions and water-use restrictions in these service areas and will make appropriate adjustments as needed.

Metropolitan Water District/ State Water Project:

GSWC supplements groundwater production with wholesale purchases 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 California Department of Water Resources ("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 June 2019, DWR set SWP delivery allocation at 75 percent of requests for the 2019 calendar year.

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 the 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 GSWC's electric division, 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, 2018.

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 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, 2019, 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. No legal proceedings are pending, which are believed to be material. 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 2018 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 2019:

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 (1)(3)
July 1 – 31, 2019	11,795	$ 76.66	—	—
August 1 – 31, 2019	282	$ 87.07	—	—
September 1 – 30, 2019	2,603	$ 92.91	—	—
Total	14,680 (2)	$ 79.74	—	

(1) None of the common shares were purchased pursuant to any publicly announced stock repurchase program.
(2) Of this amount, 11,124 Common Shares were acquired on the open market for employees pursuant to the Company's 401(k) plan and the remainder was 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 29, 2019, AWR's Board of Directors approved a fourth quarter dividend of $0.305 per share on AWR's Common Shares. Dividends on the Common Shares will be paid on December 2, 2019 to shareholders of record at the close of business on November 15, 2019.

(b) On October 31, 2019, the Company entered into an eighth amendment to its Credit Agreement in order to temporarily increase the aggregate commitment of the Lender by an additional $25,000,000 to $225,000,000 through June 30, 2020.

(c) There have been no material changes during the third quarter of 2019 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	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 (1)
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	2019 Short-Term Incentive Program incorporated by reference herein to Exhibit 10.1 to Registrant’s Form 8-K filed on April 1, 2019 (2)
10.22	Form of 2019 Short-Term Incentive Award Agreement incorporated by reference to Exhibit 10.2 to the Registrant’s Form 8-K filed April 1, 2019 (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 2016 Performance Award Agreement incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed January 29, 2016 (2)
10.27	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)
10.28	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 (2)
10.29	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 (2)
10.30	Form of 2018 Performance Award Agreement incorporated by reference to Exhibit 10-1 of Registrant’s Form 8-K filed February 2, 2018 (2)

10.31	2018 Short-Term Incentive Program incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on March 23, 2018 (2)
10.32	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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
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 4, 2019