

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2003 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 333-47647

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 East Foothill Boulevard, San Dimas, California

91773

(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 000-01121

Southern California 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 East Foothill Boulevard, San Dimas, California

91773

(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

Southern California Water Company

Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act.).

American States Water Company
Southern California Water Company

Yes No
Yes No

As of August 14, 2003, the number of Common Shares outstanding of American States Water Company was 15,196,970 shares.

As of August 14, 2003, all of the 110 outstanding Common Shares of Southern California Water Company were owned by American States Water Company.

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AMERICAN STATES WATER COMPANY
and
SOUTHERN CALIFORNIA 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 generally accepted accounting principles, have been condensed or omitted pursuant to such rules and regulations, although Registrant believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments 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, Southern California Water Company.

Filing Format

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: American States Water Company (hereinafter "AWR") and Southern California Water Company (hereinafter "SCW"). For more information, please see Note 1 to the *Notes to Financial Statements* and the heading entitled *General* in *Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operation*. References in this report to "Registrant" are to AWR and SCW, collectively unless otherwise specified. SCW makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than SCW.

AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
ASSETS
(Unaudited)

<i>(in thousands)</i>	June 30, 2003	December 31, 2002
Utility Plant, at cost		
Water	\$ 699,594	\$ 693,949
Electric	41,443	41,017
	741,037	734,966
Less - Accumulated depreciation	(217,138)	(206,873)
	523,899	528,093
Construction work in progress	47,196	35,218
	571,095	563,311
Other Property and Investments	22,556	22,670
	593,650	585,981
Current Assets		
Cash and cash equivalents	5,657	18,397
Accounts receivable-customers (less allowance for doubtful accounts of \$800 in 2003 and \$769 in 2002)	10,499	10,833
Unbilled revenue	13,166	12,277
Other accounts receivable	4,810	2,411
Taxes receivable	—	557
Materials and supplies, at average cost	1,443	936
Supply cost balancing accounts - current	4,313	3,215
Prepayments and other	2,029	3,220
	41,917	51,846
Deferred Charges and Other Long-Term Assets		
Regulatory tax-related assets	13,259	12,828
Supply cost balancing accounts	21,698	24,255
Other accounts receivable	3,370	3,370
Other	25,952	23,370
	64,279	63,823
Total Assets	\$ 699,847	\$ 701,650

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

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

<i>(in thousands)</i>	June 30, 2003	December 31, 2002
Capitalization		
Common shareholders' equity	\$212,970	\$213,279
Long-term debt	230,776	231,089
	<hr/>	<hr/>
Total capitalization	443,746	444,368
	<hr/>	<hr/>
Current Liabilities		
Notes payable to banks	33,000	35,000
Long-term debt - current	13,305	13,305
Accounts payable	8,598	11,600
Taxes payable	566	—
Accrued employee expenses	5,032	5,105
Accrued interest	1,957	1,941
Other	9,443	12,569
	<hr/>	<hr/>
Total current liabilities	71,901	79,520
	<hr/>	<hr/>
Other Credits		
Advances for construction	69,909	70,208
Contributions in aid of construction - net	48,786	47,751
Accumulated deferred income taxes - net	56,707	53,817
Unamortized investment tax credits	2,746	2,791
Regulatory tax-related liability	1,998	2,011
Other	4,054	1,184
	<hr/>	<hr/>
Total other credits	184,200	177,762
	<hr/>	<hr/>
Commitments and Contingencies (Note 6)		
	—	—
	<hr/>	<hr/>
Total Capitalization and Liabilities	\$699,847	\$701,650
	<hr/>	<hr/>

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
JUNE 30, 2003 AND 2002
(Unaudited)

<i>(in thousands, except per share amounts)</i>	Three Months Ended June 30,	
	2003	2002
Operating Revenues		
Water	\$46,207	\$48,765
Electric	5,353	3,839
Other	257	198
	<u>51,817</u>	<u>52,802</u>
Operating Expenses		
Water purchased	10,470	10,746
Power purchased for pumping	2,410	2,465
Power purchased for resale	2,814	5,512
Unrealized gain on purchased power contracts	(1,557)	—
Groundwater production assessment	1,729	1,801
Supply cost balancing accounts	501	(3,489)
Other operating expenses	5,086	4,152
Administrative and general expenses	11,890	8,879
Depreciation and amortization	4,945	4,538
Maintenance	2,299	2,194
Taxes on income	1,790	4,135
Other taxes	2,021	1,983
	<u>44,398</u>	<u>42,916</u>
Operating Income	7,419	9,886
Other Income (Loss)		
Other income (loss) - net	31	(87)
	<u>31</u>	<u>(87)</u>
Interest Charges		
Interest on long-term debt	4,220	4,250
Other interest and amortization of debt expense	319	114
	<u>4,539</u>	<u>4,364</u>
Net Income	2,911	5,435
Dividends on Preferred Shares	—	(8)
	<u>\$ 2,911</u>	<u>\$ 5,427</u>
Earnings Available for Common Shareholders	\$ 2,911	\$ 5,427
Weighted Average Number of Shares Outstanding	15,201	15,131
Basic Earnings Per Common Share	\$ 0.19	\$ 0.36
Weighted Average Number of Diluted Shares	15,247	15,160
Fully Diluted Earnings Per Share	\$ 0.19	\$ 0.36
Dividends Declared Per Common Share	\$ 0.221	\$ 0.217

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED
JUNE 30, 2003 AND 2002
(Unaudited)

<i>(in thousands, except per share amounts)</i>	Six Months Ended June 30,	
	2003	2002
Operating Revenues		
Water	\$85,632	\$87,856
Electric	12,357	9,045
Other	504	386
	<u>98,493</u>	<u>97,287</u>
Operating Expenses		
Water purchased	18,358	18,318
Power purchased for pumping	4,366	4,440
Power purchased for resale	6,670	10,328
Unrealized gain on purchased power contracts	(1,274)	—
Groundwater production assessment	3,396	3,596
Supply cost balancing accounts	1,459	(5,815)
Other operating expenses	9,126	7,928
Administrative and general expenses	19,414	16,443
Depreciation and amortization	9,892	9,106
Maintenance	4,249	4,086
Taxes on income	3,785	7,148
Other taxes	4,078	3,905
	<u>83,519</u>	<u>79,483</u>
Operating Income	14,974	17,804
Other Income (Loss)		
Other income, net	31	169
	<u>31</u>	<u>169</u>
Interest Charges		
Interest on long-term debt	8,475	8,505
Other interest and amortization of debt expense	629	226
	<u>9,104</u>	<u>8,731</u>
Net Income	5,901	9,242
Dividends on Preferred Shares	—	(29)
	<u>\$ 5,901</u>	<u>\$ 9,213</u>
Earnings Available for Common Shareholders	\$ 5,901	\$ 9,213
Weighted Average Number of Shares Outstanding	15,196	15,126
Basic Earnings Per Common Share	\$ 0.39	\$ 0.61
Weighted Average Number of Diluted Shares	15,224	15,144
Fully Diluted Earnings Per Share	\$ 0.39	\$ 0.61
Dividends Declared Per Common Share	\$ 0.442	\$ 0.434

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE TWELVE MONTHS ENDED
JUNE 30, 2003 AND 2002
(Unaudited)

<i>(in thousands, except per share amounts)</i>	Twelve Months Ended June 30,	
	2003	2002
		Restated Note 2
Operating Revenues		
Water	\$184,837	\$186,691
Electric	24,610	17,163
Other	964	787
	<u>210,411</u>	<u>204,641</u>
Operating Expenses		
Water purchased	42,899	38,777
Power purchased for pumping	10,502	10,606
Power purchased for resale	12,160	19,642
Unrealized loss on power purchased contracts	1,256	—
Groundwater production assessment	7,216	7,016
Supply cost balancing accounts	3,867	(11,935)
Other operating expenses	18,182	16,453
Administrative and general expenses	32,980	36,035
Depreciation and amortization	19,087	18,080
Maintenance	10,002	8,427
Taxes on income	9,587	15,481
Other taxes	7,855	7,591
	<u>175,593</u>	<u>166,173</u>
Operating Income	34,818	38,468
Other Income (Loss)		
Other income (loss) - net	252	(172)
	<u>252</u>	<u>(172)</u>
Interest Charges		
Interest on long-term debt	16,942	15,407
Other interest and amortization of debt expense	1,130	1,162
	<u>18,072</u>	<u>16,569</u>
Net Income	16,998	21,727
Dividends on Preferred Shares		(71)
	<u>\$ 16,998</u>	<u>\$ 21,656</u>
Earnings Available for Common Shareholders	<u>\$ 16,998</u>	<u>\$ 21,656</u>
Weighted Average Number of Shares Outstanding	15,179	15,123
Basic Earnings Per Common Share	\$ 1.12	\$ 1.43
Weighted Average Number of Diluted Shares	15,203	15,135
Fully Diluted Earnings Per Share	\$ 1.12	\$ 1.43
Dividends Declared Per Common Share	\$ 0.880	\$ 0.872

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(Unaudited)

<i>(in thousands)</i>	Six Months Ended June 30,	
	2003	2002
Cash Flows From Operating Activities:		
Net income	\$ 5,901	\$ 9,242
Adjustments for non-cash items:		
Depreciation and amortization	9,892	9,106
Deferred income taxes and investment tax credits	2,401	4,806
Other - net	442	1,080
Changes in assets and liabilities:		
Accounts receivable - customers	334	(768)
Unbilled revenue	(889)	(1,843)
Other accounts receivable	(2,399)	(169)
Prepayments and other current assets	684	375
Supply cost balancing accounts	1,459	(5,815)
Deferred charges and other assets	(222)	(2,498)
Accounts payable	(3,002)	2,906
Taxes payable	1,123	72
Other current liabilities	(3,183)	708
Net cash provided	12,541	17,202
Cash Flows From Investing Activities:		
Construction expenditures	(17,455)	(20,677)
Net cash used	(17,455)	(20,677)
Cash Flows From Financing Activities:		
Proceeds from issuance of common shares	504	565
Receipt of advances for and contributions in aid of construction	2,927	2,266
Refunds on advances for construction	(2,230)	(2,560)
Redemption of preferred shares	—	(1,880)
Repayment of long-term debt	(312)	(360)
Net change in notes payable to banks	(2,000)	(7,000)
Common and preferred dividends paid	(6,715)	(6,583)
Net cash used	(7,826)	(15,552)
Net decrease in cash and cash equivalents	(12,740)	(19,027)
Cash and cash equivalents, beginning of period	18,397	30,496
Cash and cash equivalents, end of period	\$ 5,657	\$ 11,469
Non-cash activities - supplemental disclosures:		
Adoption of new accounting standard for asset retirement obligations:		
Cumulative effect of adoption - Regulatory asset	\$ 2,495	—
Utility plant, net	223	—
Asset retirement obligations	(2,718)	—

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

SOUTHERN CALIFORNIA WATER COMPANY
BALANCE SHEETS
ASSETS
(Unaudited)

<i>(in thousands)</i>	June 30, 2003	December 31, 2002
Utility Plant, at cost		
Water	\$ 661,393	\$ 656,331
Electric	41,443	41,017
	702,836	697,348
Less - Accumulated depreciation	(206,455)	(196,660)
	496,381	500,688
Construction work in progress	45,146	33,705
	541,527	534,393
Other Property and Investments	7,905	8,018
Current Assets		
Cash and cash equivalents	699	11,677
Accounts receivable-customers (less allowance for doubtful accounts of \$757 in 2003 and \$729 in 2002)	10,237	10,609
Unbilled revenue	12,911	12,060
Intercompany receivable	1,243	1,044
Other accounts receivable	4,674	2,234
Materials and supplies, at average cost	1,412	905
Supply cost balancing accounts - current	4,313	3,215
Prepayments and other	1,837	3,005
	37,326	44,749
Deferred Charges and Other Long-Term Assets		
Regulatory tax-related assets	13,259	12,828
Supply cost balancing accounts	21,698	24,255
Other accounts receivable	3,370	3,370
Other	25,037	22,398
Total deferred charges	63,364	62,851
Total Assets	\$ 650,122	\$ 650,011

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY
BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

<i>(in thousands)</i>	June 30, 2003	December 31, 2002
Capitalization		
Common shareholders' equity	\$206,745	\$207,562
Long-term debt	222,557	222,725
Total capitalization	429,302	430,287
Current Liabilities		
Long-term debt - current	12,780	12,780
Accounts payable	7,942	10,576
Intercompany payable	12,092	13,000
Taxes payable	2,873	1,099
Accrued employee expenses	4,945	5,033
Accrued interest	1,842	1,843
Other	9,162	12,276
Total current liabilities	51,636	56,607
Other Credits		
Advances for construction	59,237	59,640
Contributions in aid of construction	48,503	47,480
Accumulated deferred income taxes-net	53,899	51,195
Unamortized investment tax credits	2,746	2,791
Regulatory tax-related liability	1,998	2,011
Other credits	2,801	—
	169,184	163,117
Commitments and Contingencies (Note 6)	—	—
Total Capitalization and Liabilities	\$650,122	\$650,011

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY
STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED
JUNE 30, 2003 AND 2002
(Unaudited)

<i>(in thousands, except per share amounts)</i>	Three Months Ended June	
	2003	2002
Operating Revenues		
Water	\$44,690	\$47,068
Electric	5,353	3,839
	<u>50,043</u>	<u>50,907</u>
Operating Expenses		
Water purchased	10,284	10,559
Power purchased for pumping	2,281	2,353
Power purchased for resale	2,813	5,512
Unrealized gain on power purchased contracts	(1,557)	—
Groundwater production assessment	1,729	1,801
Supply cost balancing accounts	501	(3,489)
Other operating expenses	4,765	3,908
Administrative and general expenses	9,997	7,888
Depreciation and amortization	4,713	4,310
Maintenance	2,230	2,138
Taxes on income	2,358	4,265
Other taxes	1,917	1,871
	<u>42,031</u>	<u>41,116</u>
Total operating expenses	42,031	41,116
Operating Income	8,012	9,791
Other Income (Loss)		
Other income (loss) - net	21	(115)
	<u>21</u>	<u>(115)</u>
Total other income (loss)	21	(115)
Interest Charges		
Interest on long-term debt	4,107	4,136
Other interest and amortization of debt expense	165	(56)
	<u>4,272</u>	<u>4,080</u>
Total interest charges	4,272	4,080
Net Income	\$ 3,761	\$ 5,596
	<u>110</u>	<u>110</u>
Weighted Average Number of Shares Outstanding	110	110
Basic Earnings Per Common Share	\$34,191	\$50,873
Dividends Declared Per Common Share	\$35,000	\$30,000

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY
STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED
JUNE 30, 2003 AND 2002
(Unaudited)

<i>(in thousands, except per share amounts)</i>	Six Months Ended June 30,	
	2003	2002
Operating Revenues		
Water	\$82,859	\$84,802
Electric	12,357	9,045
	<u>95,216</u>	<u>93,847</u>
Operating Expenses		
Water purchased	17,994	17,974
Power purchased for pumping	4,171	4,257
Power purchased for resale	6,669	10,328
Unrealized gain on power purchased contracts	(1,274)	—
Groundwater production assessment	3,396	3,596
Supply cost balancing accounts	1,459	(5,815)
Other operating expenses	8,518	7,450
Administrative and general expenses	17,007	14,716
Depreciation and amortization	9,431	8,651
Maintenance	4,102	3,960
Taxes on income	4,448	7,415
Other taxes	3,866	3,673
	<u>79,787</u>	<u>76,205</u>
Operating Income	15,429	17,642
Other Income (Loss)		
Other income (loss) - net	18	148
	<u>18</u>	<u>148</u>
Interest Charges		
Interest on long-term debt	8,247	8,272
Other interest and amortization of debt expense	315	(92)
	<u>8,562</u>	<u>8,180</u>
Net Income	\$ 6,885	\$ 9,610
Weighted Average Number of Shares Outstanding		
	110	110
Basic Earnings Per Common Share		
	\$62,591	\$87,364
Dividends Declared Per Common Share		
	\$70,000	\$60,000

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY
STATEMENTS OF INCOME
FOR THE TWELVE MONTHS ENDED
JUNE 30, 2003 AND 2002
(Unaudited)

<i>(in thousands, except per share amounts)</i>	Twelve Months Ended June 30,	
	2003	2002
		Restated Note 2
Operating Revenues		
Water	\$178,961	\$180,368
Electric	24,610	17,163
	<u>203,571</u>	<u>197,531</u>
Operating Expenses		
Water purchased	42,202	38,090
Power purchased for pumping	10,081	10,140
Power purchased for resale	12,160	19,642
Unrealized loss on power purchased contracts	1,256	—
Groundwater production assessment	7,216	7,016
Supply cost balancing accounts	3,867	(11,935)
Other operating expenses	16,891	15,439
Administrative and general expenses	28,465	33,683
Depreciation and amortization	18,164	17,005
Maintenance	9,744	8,191
Taxes on income	10,638	15,693
Other taxes	7,561	7,073
	<u>168,245</u>	<u>160,037</u>
Operating Income	35,326	37,494
Other Income (Loss)		
Other income (loss) - net	188	(253)
	<u>188</u>	<u>(253)</u>
Interest Charges		
Interest on long-term debt	16,495	14,922
Other interest and amortization of debt expense	523	413
	<u>17,018</u>	<u>15,335</u>
Net Income	<u>\$ 18,496</u>	<u>\$ 21,906</u>
Weighted Average Number of Shares Outstanding	110	110
Basic Earnings Per Common Share	\$168,148	\$199,145
Dividends Declared Per Common Share	\$143,000	\$123,000

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(Unaudited)

<i>(in thousands)</i>	Six Months Ended June 30,	
	2003	2002
Cash Flows From Operating Activities:		
Net income	\$ 6,885	\$ 9,610
Adjustments for non-cash items:		
Depreciation and amortization	9,431	8,651
Deferred income taxes and investment tax credits	2,215	4,655
Other - net	410	1,010
Changes in assets and liabilities:		
Accounts receivable - customers	372	(456)
Unbilled revenue	(851)	(1,765)
Other accounts receivable	(2,440)	(152)
Prepayments and other current assets	661	169
Supply cost balancing accounts	1,459	(5,815)
Deferred charges and other assets	(317)	(2,517)
Accounts payable	(2,634)	3,006
Intercompany payable	(1,107)	(9,366)
Taxes payable	1,774	471
Other current liabilities	(3,203)	693
Net Cash Provided	12,655	8,194
Cash Flows From Investing Activities:		
Construction expenditures	(16,344)	(20,294)
Net Cash Used	(16,344)	(20,294)
Cash Flows From Financing Activities:		
Receipt of advances for and contributions in aid of construction	2,811	2,204
Refunds on advances for construction	(2,230)	(2,560)
Repayments of long-term debt	(170)	(226)
Common and preferred dividends paid	(7,700)	(6,600)
Net Cash Used	(7,289)	(7,182)
Net decrease in cash and cash equivalents	(10,978)	(19,282)
Cash and cash equivalents, beginning of period	11,677	26,079
Cash and cash equivalents, end of period	\$ 699	\$ 6,797
Non-cash activities - supplemental disclosures:		
Adoption of new accounting standard for asset retirement obligations:		
Cumulative effect of adoption - Regulatory asset	\$ 2,479	—
Utility plant, net	221	—
Asset retirement obligations	(2,700)	—

The accompanying notes are an integral part of these financial statements

**AMERICAN STATES WATER COMPANY
AND
SOUTHERN CALIFORNIA WATER COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

American States Water Company (AWR), incorporated in 1998, is the parent company of Southern California Water Company (SCW), American States Utility Services, Inc. (ASUS) and Chaparral City Water Company (CCWC). More than 90% of AWR's assets consist of the common shares of SCW. SCW is a public utility company engaged principally in the purchase, production, distribution and sale of water in California. In addition, SCW distributes and sells electric energy in several mountain communities in California. Unless otherwise stated in this report, the terms "Registrant" and "the Company" apply to both AWR and SCW, collectively.

Note 1 - Basis of Presentation: The consolidated financial statements included herein have been prepared by AWR, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America for annual financial statements have been condensed or omitted pursuant to such rules and regulations. 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 revenue 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, 2002 filed with the SEC. Certain prior year amounts have been reclassified to conform to current year presentation.

Note 2 - Restatement of Previously Issued Financial Statements: In connection with a deferred tax analysis of Registrant's tax accounts performed in 2002, Registrant determined that it had miscalculated its net accumulated deferred income taxes over several years, resulting in taxes on income not being recognized in the proper period, and overstating Registrant's net deferred tax liabilities and current taxes payable. Registrant further determined that the amount of the overstatements, which totaled approximately \$4.7 million and \$4.9 million as of December 31, 2001 for AWR and SCW, respectively, arose in prior years and that prior years' financial statements should be restated to reduce net accumulated deferred income taxes, taxes payable and the related tax expense to reflect amounts currently due and deferred. The financial information for the twelve months ended June 30, 2002 included in these consolidated financial statements has been adjusted to give effect to the restatement. The following tables summarize the effects of the restatement on Registrant's twelve months ended June 30, 2002:

	Twelve Months Ended June 30, 2002			
	AWR		SCW	
	Previously Reported	Restated	Previously Reported	Restated
<i>(dollars in thousands except EPS)</i>				
Statements of Income:				
Taxes on income	\$15,690	\$15,481	\$ 15,902	\$ 15,693
Operating income	38,259	38,468	37,285	37,494
Net income	21,518	21,727	21,697	21,906
Basic earnings per share	\$ 1.42	\$ 1.43	\$197,245	\$199,145
Diluted earnings per share	\$ 1.40	\$ 1.43	N/A	N/A

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Note 3 - Earnings Per Share: Basic earnings per common share are calculated pursuant to Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share", and are based on the weighted average number of common shares outstanding during each period and net income after deducting preferred dividend requirements. Under the American States Water Company 2000 Stock Incentive Plan, stock options are granted to certain eligible employees. As a result, fully diluted earnings per share amounts are shown. Earnings per share for all periods presented also reflect a three-for-two split of AWR's common shares effective June 7, 2002.

Note 4 - Regulatory Matters:

Changes in Rates:

Step increases of approximately \$321,600 for four of seven ratemaking districts in SCW's Region I were implemented in January 2002. Region I also received attrition increases of \$219,400 effective January 2003.

On January 16, 2003, the California Public Utilities Commission (CPUC) approved rate increases of approximately \$2.7 million annually, effective January 22, 2003, in SCW's Metropolitan district to recover costs associated with an increase in Region II rate base due to SCW's 2002 infrastructure replacement program and, additionally, to recover general increases in operating expenses. On January 31, 2003, the CPUC also approved SCW's Advice Letter filed for the Region II 2003 infrastructure replacement program with rate increases of \$3.5 million annually, effective February 4, 2003.

Balancing Accounts:

As permitted by the CPUC, SCW has historically maintained water and electric supply balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Costs are recorded in income and charged to balancing accounts when such costs are incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments or through refunds of previously incurred costs. SCW accrues interest on its supply cost balancing accounts at the rate prevailing for 90-day commercial paper. CCWC does not maintain a supply cost balancing account.

Water Balancing Account - On November 29, 2001, the CPUC ordered water utilities with existing water supply balancing accounts to cease booking amounts to such accounts. In its place, water utilities are now required to establish a memorandum account. The over- or under-collection of water supply costs are recorded in this memorandum account in a manner similar to the balancing account. The income statements of SCW will no longer include entries reflecting differences between authorized water supply unit costs included in rates and actual water supply costs. As a result, any changes in water supply costs as well as any future authorized revenue increases for supply expenses may directly impact earnings.

In a decision issued on June 19, 2003 related to the memorandum supply cost account, the CPUC concluded that (i) if a utility is within its rate case cycle and does not earn over its authorized rate of return, the utility is entitled to recover its costs in the memorandum supply cost account, subject to a reasonableness review by the CPUC; (ii) if a utility is either within or outside of its rate case cycle and earns over the authorized return, the utility's recovery of expenses from the memorandum supply cost account will be reduced by the amount exceeding the authorized rate of return; and (iii) a utility is required to seek review of under and over collections by filing an advice letter annually by March 31. The CPUC also authorized water utilities, including SCW, to file advice letters, seeking account review for November 29, 2001 through December 31, 2002 within 90 days of this decision. SCW has an under-collection of approximately \$3.1 million in its memorandum supply cost account for the period from November 29, 2001 to December 31, 2002, and intends to file advice letters before the due date of

Note 4 - Regulatory Matters (Continued):

September 19, 2003, pending clarification by the CPUC of certain procedures in the June 19, 2003 decision. As of June 30, 2003, SCW has an under-collection of approximately \$4.7 million in its memorandum supply cost account, and intends to file advice letters annually by March 31.

SCW has a net under-collection position of \$2.5 million recorded in its water supply balancing account at June 30, 2003 related to pre-November 29, 2001 activities. Of these amounts, recovery of approximately \$0.3 million has been included in rates prior to November 29, 2001. Pursuant to an order issued in December 2002 by the CPUC, authorizing water utilities to file advice letters, SCW filed such advice letters for the under recovered balance of \$2.2 million on March 17, 2003, requesting recovery of the balancing accounts prior to November 29, 2001. On June 19, 2003, the CPUC authorized increases of \$2.1 million in total, effective June 24, 2003, for SCW to recover the pre-November 29, 2001 balances. The remaining \$75,000 is to be deferred to the next rate case of Region I.

Electric Balancing Account – Electric power costs incurred by SCW’s Bear Valley Electric division continue to be charged to its electric supply cost balancing account. The under-collection in the electric balancing account is \$23.6 million at June 30, 2003. The CPUC has authorized SCW to collect a surcharge from its customers of 2.2¢ per kilowatt hour for a period of up to ten years to enable SCW to recover this under-collection. SCW sold 28,287,000 and 27,981,000 kilowatt hours of electricity to its Bear Valley Electric division customers during the three months ended June 30, 2003 and 2002, respectively, 67,972,000 and 67,178,000 kilowatt hours, respectively, for the six months ended June 30, 2003 and 2002, and 132,620,000 and 128,234,000 kilowatt hours, respectively, for the twelve months ended June 30, 2003 and 2002. SCW anticipates that electricity sales during the ten year period will be sufficient to enable SCW to recover the amount of this under-collection during this ten year period.

CCWC, subject to regulation by the Arizona Corporation Commission (ACC), does not maintain balancing accounts and increases in costs are normally expensed as incurred and recovered through adjustments in general rate case applications.

Note 5 - New Accounting Pronouncements:

Effective January 1, 2003, Registrant adopted SFAS No. 143, “*Accounting for Asset Retirement Obligations*”, which requires businesses to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Registrant’s legal obligations for retirement reflect principally the retirement of wells, which by law need to be disposed of at removal. As such, the regulated subsidiaries of AWR incur asset retirement obligations. Retirement cost has historically been recovered through rates at the time of retirement. Accordingly, at implementation of SFAS No. 143, the cumulative effect was reflected as a regulatory asset. Registrant will also reflect the gain or loss at settlement as a regulatory asset or liability on the balance sheet.

Upon adoption of SFAS No. 143 on January 1, 2003, Registrant recorded the fair value of the asset retirement obligation of \$13.2 million at its net present value of \$2.7 million, increased depreciable assets by \$0.4 million for asset retirement costs, increased regulatory assets by \$2.5 million and increased accumulated depreciation by \$0.2 million. Amounts recorded under SFAS 143 are subject to various assumptions and determinations, such as determining whether a legal obligation exists to remove assets, and estimating the fair value of the costs of removal, when final removal will occur and the credit-adjusted risk-free interest rates to be utilized on discounting future liabilities. Changes that may arise over time with regard to these assumptions will change amounts recorded in the future.

Note 5 - New Accounting Pronouncements (Continued):

The following is a reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligations ("ARO"):

	For The Six Months Ended June 30, 2003				Balance At June 30, 2003
	Balance at Adoption January 1, 2003	Liabilities Incurred	Liabilities Settled	Accretion	
ARO	\$2,718,079	—	—	102,316	\$2,820,395

In April 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. All provisions of this Statement will be applied prospectively. The Company has not entered into or modified any contracts or designated any hedging relationships after June 30, 2003.

In June 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". This Statement specifies that instruments within its scope embody obligations of the issuer and that, therefore, the issuer must classify them as liabilities. This Statement was effective July 1, 2003. At June 30, 2003, Registrant did not have any financial instruments with characteristics of both liabilities and equity.

Note 6 – Contingencies

SCW has been named as a defendant in twenty two lawsuits that allege that SCW and other water utilities, delivered unsafe water to their customers. Plaintiffs in these actions seek damages, including general, special, and punitive damages, according to proof at trial, as well as attorney's fees on certain causes of action, costs of suit, and other unspecified relief. Nineteen of the lawsuits involve customer service areas located in Los Angeles County in the southern portion of California; three of the lawsuits involve a customer service area located in Sacramento County in northern California. On September 1, 1999, the Court of Appeal in San Francisco held that the CPUC had preemptive jurisdiction over regulated public utilities and ordered dismissal of a series of these lawsuits. On October 11, 1999, one group of plaintiffs appealed the decision to the California Supreme Court.

On February 4, 2002, the California Supreme Court concluded that (i) the CPUC had preemptive jurisdiction over claims seeking injunctive relief and claims based on the theory that a public utility regulated by the CPUC provided unsafe drinking water even though it had complied with federal and state drinking water standards, but (ii) the CPUC did not have preemptive jurisdiction over damage claims alleging violations of federal and state drinking water standards by public utilities regulated by the CPUC. As a result, damage claims based on allegations of violations of federal and state drinking water standards may proceed while the other claims must be dismissed. In light of the breadth of plaintiffs' claims, the lack of factual information regarding plaintiffs' claims and injuries, if any, the impact of the California Supreme Court decision on plaintiffs' claims and the fact that no discovery has yet been completed, SCW is unable at this time to determine what, if any, potential liability it may have with respect to claims based on allegations of violation of federal and state drinking water standards.

Note 6 – Contingencies (Continued)

On October 25, 1999, SCW sued Aerojet-General Corporation (Aerojet) for causing the contamination of the Sacramento County Groundwater Basin. A cross complaint in 2000 filed by Aerojet against SCW for negligence and constituting a public nuisance was dismissed by the court in October 2002.

In a separate case, also filed on October 25, 1999, SCW filed a lawsuit against the State of California and its State Water Resources Control Board, Central Valley Regional Water Quality Control Board, and Department of Toxic Substances Control (collectively, the State) alleging that the State had substantially participated in a project to inject chemical pollution into portions of the Sacramento County groundwater basin and that pollution is progressively destroying the groundwater supply in SCW's Rancho Cordova water system. SCW and the State have entered into a comprehensive \$2,475,000 settlement of all of SCW's claims against the State contingent upon the court's approval of the good faith of the settlement, of which the Company has received \$2,397,000 on July 3, 2003 with the remaining balance to be received during the third quarter of 2003.

The CPUC has authorized memorandum accounts to allow for recovery of costs incurred by SCW in prosecuting the cases against the State and Aerojet from customers, less any recovery from the defendants or others. As of June 30, 2003, approximately \$15.3 million has been recorded as Other Deferred Charges. The CPUC has authorized SCW to increase rates, effective April 28, 2001, for recovery over a six-year period of approximately \$1.8 million, in expenses that were incurred on or before August 31, 2000. SCW will file to replace the current six year amortization to reflect the current memorandum account balance and maintain a long-term amortization period in the next general rate case application for its Region I. The Notice of Intent for the application was filed with the CPUC on January 31, 2003. Management believes these costs are recoverable but cannot give assurance that the CPUC will ultimately allow recovery of all or any of the remaining costs through rates.

The compound MTBE has been detected in a well serving SCW's Los Osos water system. For some time, SCW has been working with the Regional Water Quality Control Board as well as the owner of a gas service station. Although the owner of the service station has attempted remediation with funds provided through the California Underground Storage Tank Fund ("CUSTF"), it appears there will be insufficient funds from the CUSTF to complete remediation sufficient to return the well to service. In order to prevent the running of the statute of limitations, on August 12, 2002 SCW filed suit in the Superior Court of the State of California for the County of San Luis Obispo against the operators and owners of the service station facility, and Chevron USA Products, Inc., the supplier. At this time, a settlement with Chevron has been tentatively reached. The impacted well may need to be removed permanently from service and the settlement with Chevron, being finalized at this time, will afford the Company with sufficient funds to commence siting and construction of a replacement well.

Volatile Organic Compounds (VOC) and perchlorate have been detected in two wells servicing SCW's San Gabriel System. SCW filed suit, along with two other affected water purveyors and the San Gabriel Basin Water Quality Authority (WQA), in the federal court against some of those responsible for the contamination. Some of the other potential defendants settled with SCW, other water purveyors and the WQA on VOC related issues, prior to the filing of the lawsuit. In response to the filing of the Federal lawsuit, the Potentially Responsible Party (PRP) defendants filed motions to dismiss the suit or strike certain portions of the suit. The judge issued a ruling on April 1, 2003 granting in part and denying in part the defendant's motions. A key ruling of the court was that the water purveyors, including the Registrant, by virtue of their ownership of wells contaminated with hazardous chemicals are themselves PRPs under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). Registrant amended its suit to claim certain affirmative defenses as an "innocent" party under CERCLA. Registrant is presently unable to predict the outcome of this ruling on its ability to fully recover from the PRPs future costs associated with the treatment of these wells.

Note 6 – Contingencies (Continued)

SCW has been, in conjunction with the Southern California Edison (Edison) unit of Edison International, planning to upgrade transmission facilities to 115kv (the 115kv Project) in order to meet increased energy and demand requirements for SCW's Bear Valley Electric service area. On December 27, 2000, SCW filed a lawsuit against Edison for declaratory relief and seeking damages for breach of contract as a result of delays in the 115kv Project as well as for violations of good faith and fair dealing, negligent misrepresentation, intentional misrepresentation and unjust enrichment. Subsequently, Edison filed a cross-complaint against SCW for breach of contract, anticipatory breach, and quantum meruit. To date, SCW has spent approximately \$2.4 million in this matter for legal costs, all of which has been expensed. A date of September 30, 2003 has been set for mediation in this matter.

The Company is also subject to ordinary routine litigation incidental to its business. Other than those disclosed above, no other legal proceedings are pending, which are believed to be material. Management believes that proper insurance coverage and reserves are in place to insure against property, general liability and workers' compensation claims incurred in the ordinary course of business.

Note 7 - Business Segments

AWR has three principal business units: water and electric distribution units, through its SCW subsidiary, a water service utility operation conducted through its CCWC unit, and a non-regulated activity unit through the ASUS subsidiary. All activities of SCW currently are geographically located within California. All activities of CCWC are located in the state of Arizona. Both SCW and CCWC are regulated utilities. On a stand-alone basis, AWR has no material assets other than its investments in its subsidiaries. The tables below set forth information relating to SCW's water and electric operating segments, CCWC, and non-regulated businesses, consisting of ASUS and AWR corporate expenses. Included in the amounts set forth, certain assets, revenues and expenses have been allocated. The identifiable assets are net of respective accumulated provisions for depreciation. Capital additions reflect capital expenditures paid in cash and exclude property installed by developers and conveyed to the Company.

(dollars in thousands)

For The Three Months Ended June 30, 2003

	SCW		CCWC Water	Non-Regulated	Eliminations	Consolidated AWR
	Water	Electric				
Operating revenues	\$ 44,690	\$ 5,353	\$ 1,558	\$ 257	(\$41)	\$ 51,817
Operating income (loss) before income taxes	9,297	1,073	306	(1,467)	—	9,209
Interest expense, net	3,922	350	121	146	—	4,539
Identifiable assets	514,433	27,094	29,468	100	—	571,095
Depreciation expense	4,322	391	232	—	—	4,945
Capital additions	7,671	644	688	43	—	9,046

(dollars in thousands)

For The Three Months Ended June 30, 2002

	SCW		CCWC Water	Non-Regulated	Eliminations	Consolidated AWR
	Water	Electric				
Operating revenues	\$ 47,068	\$ 3,839	\$ 1,697	\$ 198	\$ —	\$ 52,802
Operating income (loss) before income taxes	13,824	232	602	(637)	—	14,021
Interest expense, net	3,746	334	121	163	—	4,364
Identifiable assets	494,807	27,367	28,580	—	—	550,754
Depreciation expense	3,943	367	228	—	—	4,538
Capital additions	11,740	587	252	—	—	12,579

Note 7 - Business Segments (Continued):

	<i>(dollars in thousands)</i>					<i>For The Six Months Ended June 30, 2003</i>
	SCW		CCWC Water	Non- Regulated	Eliminations	Consolidated AWR
	Water	Electric				
Operating revenues	\$ 82,859	\$12,357	\$ 2,814	\$ 504	(\$41)	\$ 98,493
Operating income (loss) before income taxes	19,001	876	483	(1,601)	—	18,759
Interest expense, net	7,861	701	242	300	—	9,104
Identifiable assets	514,433	27,094	29,468	100	—	571,095
Depreciation expense	8,648	783	461	—	—	9,892
Capital additions	14,965	1,379	1,078	33	—	17,455

	<i>(dollars in thousands)</i>					<i>For The Six Months Ended June 30, 2002</i>
	SCW		CCWC Water	Non- Regulated	Eliminations	Consolidated AWR
	Water	Electric				
Operating revenues	\$ 84,802	\$ 9,045	\$ 3,054	\$ 386	\$ —	\$ 97,287
Operating income (loss) before income taxes	24,005	1,052	922	(1,027)	—	24,952
Interest expense, net	7,511	669	247	304	—	8,731
Identifiable assets	494,807	27,367	28,580	—	—	550,754
Depreciation expense	7,916	735	455	—	—	9,106
Capital additions	19,327	967	383	—	—	20,677

	<i>(dollars in thousands)</i>					<i>For The Twelve Months Ended June 30, 2003</i>
	SCW		CCWC Water	Non- Regulated	Eliminations	Consolidated AWR
	Water	Electric				
Operating revenues	\$178,961	\$24,610	\$ 5,917	\$ 964	(\$41)	\$210,411
Operating income (loss) before income taxes	41,973	3,991	1,308	(2,867)	—	44,405
Interest expense, net	15,502	1,516	477	577	—	18,072
Identifiable assets	514,433	27,094	29,468	100	—	571,095
Depreciation expense	16,646	1,518	923	—	—	19,087
Capital additions	34,219	1,319	1,795	100	—	37,433

	<i>(dollars in thousands)</i>					<i>For The Twelve Months Ended June 30, 2002</i>
	SCW		CCWC Water	Non- Regulated	Eliminations	Consolidated AWR
	Water	Electric				
Operating revenues	\$180,368	\$17,163	\$ 6,323	\$ 787	\$ —	\$204,641
Operating income (loss) before income taxes	56,390	(3,203)	1,824	(1,062)	—	53,949
Interest expense, net	14,081	1,254	524	710	—	16,569
Identifiable assets	494,807	27,367	28,580	—	—	550,754
Depreciation expense	15,546	1,459	1,075	—	—	18,080
Capital additions	45,127	2,161	717	—	—	48,005

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

Forward-Looking Information

Certain matters discussed in this report (including the documents incorporated herein by reference) are forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as Registrant "believes," "anticipates," "expects" or words of similar import. Similarly, statements that describe Registrant's future plans, objectives, estimates or goals are also forward-looking statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rates, water quality and other regulatory matters, adequacy of water supplies, SCW's ability to recover electric and water supply costs from ratepayers, liquidity and capital resources, and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as changes in utility regulation, including ongoing local, state and federal activities; future economic conditions, including changes in customer demand and changes in water and energy supply cost; future climatic conditions; and legislative, regulatory and other circumstances affecting anticipated revenues and costs. See the section entitled "*Risk Factors*" for more information.

General

American States Water Company (AWR), incorporated in 1998, is engaged in the business of holding, for investment, the stock primarily of utility companies. AWR's principal investment is the stock of SCW. SCW is a California public utility company engaged principally in the purchase, production, distribution and sale of water (SIC No. 4941). SCW also distributes electricity in one customer service area (SIC No. 4911). SCW is regulated by the Public Utilities Commission of the State of California (CPUC) and was incorporated on December 31, 1929. SCW is organized into one electric customer service area and three water service regions operating within 75 communities in 10 counties in the State of California and provides water service in 21 customer service areas. Region I incorporates 7 customer service areas in northern and central California; Region II has 4 customer service areas located in Los Angeles County; Region III incorporates 10 water customer service areas in eastern Los Angeles County, and in Orange, San Bernardino and Imperial counties. SCW also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County through its Bear Valley Electric division.

SCW served 261,247 water customers and 22,080 electric customers at June 30, 2003, or a total of 283,327 customers, compared with 281,421 total customers at June 30, 2002.

SCW's utility operations exhibit seasonal trends. Although SCW's water utility operations have a diversified customer base, residential and commercial customers account for the majority of SCW's water sales and revenues. Revenues derived from commercial and residential water customers accounted for approximately 87.1%, 90.6% and 91.6% of total water revenues for the three, six and twelve months ended June 30, 2003, respectively, as compared to 85.8%, 89.7% and 90.9% for the three, six and twelve months ended June 30, 2002, respectively.

AWR also owns two other subsidiaries. American States Utility Services, Inc. (ASUS) is in the business of contracting to lease, operate and maintain water and wastewater systems owned by others and to provide related services, such as billing and meter reading. ASUS services approximately 91,500 accounts. Chaparral City Water Company (CCWC) is an Arizona public utility company serving 11,910 customers as of June 30, 2003, compared with 11,625 customers at June 30, 2002, in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. The majority of CCWC's customers are residential. The Arizona Corporation Commission (ACC) regulates CCWC.

Neither AWR nor ASUS is directly regulated by either the CPUC or the ACC.

Introduction

As described in Note 2 to the accompanying consolidated financial statements, Registrant has restated its financial statements for the twelve months ended June 30, 2002. In connection with a deferred tax analysis of Registrant's tax accounts performed in 2002, Registrant determined that it had miscalculated its net accumulated deferred income taxes and current tax payable account over several years, resulting in taxes on income not being recognized in the proper period, and overstating Registrant's net deferred tax liabilities and current taxes payable. Registrant further determined that the amount of the overstatements, which totaled approximately \$4.7 million and \$4.9 million as of December 31, 2001 for AWR and SCW, respectively, arose in prior years and that prior years' financial statements should be restated to reduce net accumulated deferred income taxes, taxes payable and the related tax expense to reflect amounts currently due and deferred. The financial information for the twelve months ended June 30, 2002 included in these consolidated financial statements has been adjusted to give effect to the restatement. The following table summarizes the effects of the restatement on Registrant's twelve months ended June 30, 2002:

<i>(dollars in thousands except EPS)</i>	Twelve Months Ended June 30, 2002			
	AWR		SCW	
	Previously Reported	Restated	Previously Reported	Restated
Statements of Income:				
Taxes on income	\$15,690	\$15,481	\$ 15,902	\$ 15,693
Operating income	38,259	38,468	37,285	37,494
Net income	21,518	21,727	21,697	21,906
Basic earnings per share	\$ 1.42	\$ 1.43	\$197,245	\$199,145
Diluted earnings per share	\$ 1.40	\$ 1.43	N/A	N/A

All earnings per share information reflect a three-for-two split of AWR's common shares to holders of record on May 15, 2002.

Results of Operation**RESULTS OF SECOND QUARTER 2003 OPERATIONS**

	3 MOS ENDED 6/30/03	3 MOS ENDED 6/30/02	\$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	\$46,207	\$48,765	\$(2,558)	-5.2%
Electric	5,353	3,839	1,514	39.4%
Other	257	198	59	29.8%
Total operating revenues	51,817	52,802	(985)	-1.9%
OPERATING EXPENSES				
Water purchased	10,470	10,746	(276)	-2.6%
Power purchased for pumping	2,410	2,465	(55)	-2.2%
Power purchased for resale	2,814	5,512	(2,698)	-48.9%
Unrealized gain on power purchased contracts	(1,557)	—	(1,557)	100.0%
Groundwater production assessment	1,729	1,801	(72)	-4.0%
Supply cost balancing accounts	501	(3,489)	3,990	-114.4%
Other operating expenses	5,086	4,152	934	22.5%
Administrative and general expenses	11,890	8,879	3,011	33.9%
Depreciation and amortization	4,945	4,538	407	9.0%
Maintenance	2,299	2,194	105	4.8%
Taxes on income	1,790	4,135	(2,345)	-56.7%
Other taxes	2,021	1,983	38	1.9%
Total operating expenses	44,398	42,916	1,482	3.5%
Operating income	7,419	9,886	(2,467)	-25.0%
OTHER INCOME (LOSS) - NET	31	(87)	118	-135.6%
INTEREST CHARGES	4,539	4,364	175	4.0%
NET INCOME	\$ 2,911	\$ 5,435	\$(2,524)	-46.4%

Second quarter net income decreased 46.4% to \$2.9 million, equivalent to \$0.19 per common share on a basic and fully diluted basis, compared to \$5.4 million or \$0.36 per share earned in 2002's second quarter.

Operating Revenues

For the three months ended June 30, 2003, revenues from water operations decreased 5.2% to \$46.2 million compared to \$48.8 million for the three months ended June 30, 2002. The decrease was due to a 10.6% decrease in water consumption resulting from wetter and cooler temperatures in most of SCW's service areas, offset by two rate increases for SCW's Region II that were effective on January 21, 2003 and February 4, 2003, respectively. These two rate increases are expected to generate additional revenues of approximately \$6.2 million annually. Differences in temperature and rainfall in Registrant's service areas impact sales of water to customers causing fluctuations in Registrant's revenues and earnings between comparative periods.

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For the three months ended June 30, 2003, revenues from electric operations increased by 39.4% to \$5.4 million compared to \$3.8 million for the three months ended June 30, 2002. The increase reflects rate increases in July 2002 authorized by the CPUC to cover purchased power costs under various power supply agreements. In addition, kilowatt-hour sales increased by 1.1%.

Operating Expenses

For the three months ended June 30, 2003, purchased water costs decreased by 2.6% to \$10.5 million compared to \$10.7 million for the three months ended June 30, 2002. The decrease was due to a 10.6% decrease in water consumption, offset by (i) an increase in the costs of leased water rights to pump in SCW's Region II, and (ii) additional purchased water volume necessary during the second quarter of 2003 to replace pumped water supply lost due to wells being removed from service as a result of water quality issues and mechanical problems, particularly in SCW's Arden/Cordova customer service area and Foothill districts. For the three months ended June 30, 2003, 48% of our supply mix was purchased water as compared to 43% purchased for the three months ended June 30, 2002.

For the three months ended June 30, 2003, cost of power purchased for pumping decreased slightly by 2.2% to \$2.4 million compared to \$2.5 million for three months ended June 30, 2002. The decrease is due to lower consumption and lower well production as a result of additional wells down for maintenance and water quality issues. The effect of wells being offline was partially offset by increased power rates and timing differences in billing by our energy providers.

For the three months ended June 30, 2003, cost of power purchased for resale to customers in SCW's Bear Valley Electric division decreased by 48.9% to \$2.8 million compared to \$5.5 million for the three months ended June 30, 2002. The significant decrease is primarily due to (i) lower power costs at a price of \$74.65 per megawatt hour (MWh) effective November 2002 under SCW's power supply agreements with Pinnacle West Capital Corporation (PWCC) as compared to \$95 per MWh for energy purchased from Mirant Americas Energy Marketing, LP (Mirant) under then existing contracts in the same period of 2002, and (ii) additional accruals of \$2.2 million for purchased power costs based on adjusted invoices received in April of 2002 from Dynegy Power Marketing, Inc. (Dynegy) for purchased power incurred during prior periods. There were no comparable accruals during the three months ended June 30, 2003.

The entry for unrealized gain and loss on power purchased contracts represent gains and losses recorded for SCW's power purchase agreements, effective November 2002 with PWCC, which qualify as derivative instruments under Statement of Financial Accounting Standards (SFAS) No. 133, "*Accounting for Derivative Instruments and Hedging Activities*". The \$1.6 million pre-tax unrealized gain for the three months ended June 30, 2003 is due to increases in current forward market prices since December 31, 2002. This results in a decrease in SCW's cumulative unrealized loss on these contracts. There is no cash flow impact from these gains and losses. Management is evaluating alternatives to minimize future unrealized losses. Unrealized gains and losses at Bear Valley Electric will continue to impact earnings during the life of the contract with PWCC. Management expects there to be no overall impact on Bear Valley Electric earnings at the end of the contract period, in 2008.

For the three months ended June 30, 2003, groundwater production assessments decreased by 4.0% to \$1.7 million compared to \$1.8 million for the three months ended June 30, 2002 due primarily to wells being down as discussed previously, which resulted in increased purchased water and less pumping, and lower consumption. The decrease was partially offset by increases in assessment rates levied against groundwater production effective July 2002.

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A positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. Conversely, a negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. An increase in the provision of supply cost balancing accounts of \$4.0 million for the three months ended June 30, 2003 when compared to the three months ended June 30, 2002, primarily reflects new rates authorized in July of 2002 to recover electric power costs, and additional accruals of \$2.2 million for purchased power costs recorded in April 2002 as discussed previously. At June 30, 2003, Registrant had a combined net under-collected position of \$26.0 million in both its water and electric supply balancing accounts primarily due to the previous increases in energy costs.

For the three months ended June 30, 2003, other operating expenses increased by 22.5% to \$5.1 million compared to \$4.2 million for the three months ended June 30, 2002. The increase was due primarily to (i) higher water treatment costs and labor costs which increased by almost \$540,000, (ii) approximately \$165,000 of refunds for a sewer service overpayment in June 2002 for which there was no counterpart in 2003; and (iii) reimbursements totaling \$205,000 received during second quarter of 2002 from settling parties for expenses incurred in the San Gabriel basin to meet water quality standards for which there was no counterpart in 2003.

For the three months ended June 30, 2003, administrative and general expenses increased by 33.9% to \$11.9 million compared to \$8.9 million for the three months ended June 30, 2002. The increase was due primarily to (i) approximately \$800,000 increase in outside consulting services for new business development, (ii) approximately \$600,000 increase in legal costs incurred primarily in the Edison lawsuit for Bear Valley Electric, (iii) the write-off of \$680,000 in legal costs incurred to obtain water storage rights in SCW's Central basin area due to an unfavorable court decision that will likely result in SCW's inability to obtain the rights, and (iv) approximately \$580,000 increase in pensions and benefits due to actuarial assumption changes in the discount rate and expected long-term rate of return on plan assets, and increases in various benefit costs.

For the three months ended June 30, 2003, depreciation expense increased by 9.0% to \$4.9 million compared to \$4.5 million for the three months ended June 30, 2002. The increase reflects, among other things, the effects of recording approximately \$51 million in utility plant during 2002, depreciation on which began in January 2003.

For the three months ended June 30, 2003, maintenance expense increased by 4.8% to \$2.3 million compared to \$2.2 million due principally to the termination of SCW's Cash Preservation Program ("CPP") in August 2002 following the CPUC's approval of rate increases permitting SCW to begin recovery of power costs incurred during the energy crisis of 2000-2001 to serve customers of its Bear Valley Electric division. The CPP was initially implemented in 2001 to control costs and temporarily limit capital and maintenance expenditures principally to those projects that were believed necessary to meet public safety and health requirements or otherwise provide for continued service. The CPP impacted both the electric and water businesses of SCW.

For the three months ended June 30, 2003, taxes on income decreased by 56.7% to \$1.8 million compared to \$4.1 million for the three months ended June 30, 2002 due primarily to lower pre-tax operating income.

For the three months ended June 30, 2003, other taxes increased slightly by 1.9% to \$2 million compared to \$1.9 million for the three months ended June 30, 2002 reflecting increases in payroll taxes based on increased labor costs.

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For the three months ended June 30, 2003, other income increased by 136% to \$31,000 net income compared to a net loss of (\$87,000) for the three months ended June 30, 2002 reflecting decreases in labor costs and taxes.

Interest Charges

For the three months ended June 30, 2003, interest expense increased by 4% to \$4.5 million compared to \$4.4 million for the six months ended June 30, 2002 due primarily to higher short-term borrowings incurred to finance capital expenditures.

RESULTS OF SIX MONTHS ENDED JUNE 30, 2003

	6 MOS ENDED 6/30/03	6 MOS ENDED 6/30/02	\$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	\$85,632	\$87,856	\$(2,224)	-2.5%
Electric	12,357	9,045	3,312	36.6%
Other	504	386	118	30.6%
Total operating revenues	98,493	97,287	1,206	1.2%
OPERATING EXPENSES				
Water purchased	18,358	18,318	40	0.2%
Power purchased for pumping	4,366	4,440	(74)	-1.7%
Power purchased for resale	6,670	10,328	(3,658)	-35.4%
Unrealized gain on power purchased contracts	(1,274)	—	(1,274)	100.0%
Groundwater production assessment	3,396	3,596	(200)	-5.6%
Supply cost balancing accounts	1,459	(5,815)	7,274	-125.1%
Other operating expenses	9,126	7,928	1,198	15.1%
Administrative and general expenses	19,414	16,443	2,971	18.1%
Depreciation and amortization	9,892	9,106	786	8.6%
Maintenance	4,249	4,086	163	4.0%
Taxes on income	3,785	7,148	(3,363)	-47.0%
Other taxes	4,078	3,905	173	4.4%
Total operating expenses	83,519	79,483	4,036	5.1%
Operating income	14,974	17,804	(2,830)	-15.9%
OTHER INCOME (LOSS) - NET	31	169	(138)	-81.7%
INTEREST CHARGES	9,104	8,731	373	4.3%
NET INCOME	\$ 5,901	\$ 9,242	\$(3,341)	-36.2%

Net income for the six months ended June 30, 2003 decreased 36.2% to \$5.9 million, equivalent to \$0.39 per common share on a basic and fully diluted basis, compared to \$9.2 million or \$0.61 per share for the six months ended June 30, 2002.

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Operating Revenues

For the six months ended June 30, 2003, revenues from water operations decreased by 2.5% to \$85.6 million compared to \$87.9 million for the six months ended June 30, 2002. The decrease was due to a 5.9% decrease in water consumption resulting from wetter and cooler temperatures in most of SCW's service areas, offset by two rate increases for SCW's Region II that were effective on January 21, 2003 and February 4, 2003, respectively. As mentioned earlier, these two rate increases are expected to generate additional water revenues of approximately \$6.2 million annually. Differences in temperature and rainfall in Registrant's service areas impact sales of water to customers causing fluctuations in Registrant's revenues and earnings between comparative periods.

For the six months ended June 30, 2003, revenues from electric operations increased by 36.6% to \$12.4 million compared to \$9.0 million for the six months ended June 30, 2002. The increase reflects rate increases in July 2002 authorized by the CPUC to cover purchased power costs under various power supply agreements. In addition, kilowatt-hour sales increased by 1.2%.

Operating Expenses

For the six months ended June 30, 2003, purchased water costs increased slightly by 0.2% to \$18.4 million compared to \$18.3 million for the six months ended June 30, 2002. These results reflect a 5.9% decrease in water consumption, offset by (i) an increase in the costs of water rights pumped in SCW's Region II, and (ii) additional purchased water necessary during the six months ended June 30, 2003 to replace pumped water supply lost due to wells being removed from service as a result of water quality issues and mechanical problems, particularly in SCW's Arden/Cordova, Orange County and Foothill districts. For the six months ended June 30, 2003, 47% of our supply mix was purchased water as compared to 42% purchased water for the six months ended June 30, 2002.

For the six months ended June 30, 2003, cost of power purchased for pumping decreased slightly by 1.7% to \$4.4 million compared to \$4.5 million for the six months ended June 30, 2002 due to lower consumption and additional wells down for maintenance and water quality issues. The effect of wells being offline was partially offset by increased power rates.

For the six months ended June 30, 2003, cost of power purchased for resale to customers in SCW's Bear Valley Electric division decreased by 35.4% to \$6.7 million compared to \$10.3 million for six months ended June 30, 2002. This significant decrease is due primarily to (i) lower power costs at a price of \$74.65 per megawatt hour (MWh) effective November 2002 under SCW's power supply agreements with PWCC as compared to \$95 per MWh for energy purchased from Mirant under then existing contracts in the same period of 2002, and (ii) additional accruals of \$2.2 million for purchased power costs based on adjusted invoices received in April of 2002 from Dynegy for purchased power incurred during prior periods. There were no comparable accruals during the six months ended June 30, 2003.

The \$1.3 pre-tax unrealized gain on purchased power contracts for the six months ended June 30, 2003 is due to increases in the current forward market prices since December 31, 2002. There is no cash flow impact from the gains and losses on the purchased power contracts.

For the six months ended June 30, 2003, groundwater production assessments decreased by 5.6% to \$3.4 million compared to \$3.6 million for the six months ended June 30, 2002 due primarily to wells being down as discussed previously, which resulted in increased purchased water and less pumping, and lower consumption. The decrease was partially offset by increases in assessment rates levied against groundwater production effective July 2002.

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An increase of \$7.3 million during the six months ended June 30, 2003 in the provision for supply cost balancing accounts when compared to the six months ended June 30, 2002 primarily reflects new rates authorized in 2002 to recover electric power costs, and additional accruals of \$2.2 million for purchased power costs recorded in April 2002 as discussed under power purchased for resale.

For the six months ended June 30, 2003, other operating expenses increased by 15.1% to \$9.1 million compared to \$7.9 million for the six months ended June 30, 2002 due primarily to (i) higher water treatment costs and labor costs which increased by almost \$780,000, (ii) approximately \$165,000 of refunds for a sewer service overpayment in June 2002 for which there was no counterpart in 2003; and (iii) reimbursements totaling \$205,000 received during the six months ended June 30, 2002 from settling parties for expenses incurred in the San Gabriel basin to meet water quality standards for which there was no counterpart in 2003.

For the six months ended June 30, 2003, administrative and general expenses increased by 18.1% to \$19.4 million compared to \$16.4 million for the six months ended June 30, 2002 due primarily to (i) approximately \$600,000 increase in outside services for new business development, (ii) approximately \$1.1 million increase in legal costs incurred primarily in the Edison lawsuit for Bear Valley Electric, (iii) the write-off of \$680,000 in legal costs incurred to obtain water storage rights in SCW's Central basin area due to an unfavorable court decision that will likely result in SCW's inability to obtain the rights, and (iv) approximately \$720,000 increase in pensions and benefits due to actuarial assumption changes in the discount rate and expected long-term rate of return on plan assets, and increases in various benefit costs.

For the six months ended June 30, 2003, depreciation expense increased by 8.6% to \$9.9 million compared to \$9.1 million for the six months ended June 30, 2002 reflecting, among other things, the effects of recording approximately \$51 million in utility plant during 2002, depreciation on which began in January 2003.

For the six months ended June 30, 2003, maintenance expense increased by 4.0% to \$4.2 million compared to \$4.1 million for the six months ended June 30, 2002 due principally to the termination mentioned earlier of SCW's Cash Preservation Program ("CPP") in August 2002 following the CPUC's approval of rate increases permitting SCW to begin recovery of power costs incurred during the energy crisis of 2000-2001 to serve customers of its Bear Valley Electric division.

For the six months ended June 30, 2003, taxes on income decreased by 47.0% to \$3.8 million compared to \$7.1 million for six months ended June 30, 2002 due primarily to lower pre-tax operating income.

For the six months ended June 30, 2003, other taxes increased by 4.4% to \$4.1 million compared to \$3.9 million for the six months ended June 30, 2002 reflecting additional property taxes resulting from higher assessed values, and increases in payroll taxes based on increased labor costs.

Other Income (Loss)

For the six months ended June 30, 2003, other income (loss) decreased to \$31,000 income compared to \$169,000 income for the six months ended June 30, 2002. The net decrease reflects the sale of a parcel of non-operating property in Region II of SCW in the first quarter of 2002 for which there was a gain of approximately \$506,000, offset by the recording of certain non-regulated expenses to administrative and general expenses of ASUS, a non-regulated subsidiary which totaled approximately \$210,000, and a decrease in taxes.

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For the six months ended June 30, 2003, interest expense increased by 4.3% to \$9.1 million compared to \$8.7 million for the six months ended June 30, 2002 due primarily to higher short-term borrowings incurred to finance capital expenditures.

RESULTS OF TWELVE MONTHS ENDED JUNE 30, 2003

	12 MOS ENDED 6/30/03	12 MOS ENDED 6/30/02	\$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	\$184,837	\$186,691	\$ (1,854)	-1.0%
Electric	24,610	17,163	7,447	43.4%
Other	964	787	177	22.5%
Total operating revenues	210,411	204,641	5,770	2.8%
OPERATING EXPENSES				
Water purchased	42,899	38,777	4,122	10.6%
Power purchased for pumping	10,502	10,606	(104)	-1.0%
Power purchased for resale	12,160	19,642	(7,482)	-38.1%
Unrealized loss on power purchased contracts	1,256	—	1,256	100.0%
Groundwater production assessment	7,216	7,016	200	2.9%
Supply cost balancing accounts	3,867	(11,935)	15,802	-132.4%
Other operating expenses	18,182	16,453	1,729	10.5%
Administrative and general expenses	32,980	36,035	(3,055)	-8.5%
Depreciation and amortization	19,087	18,080	1,007	5.6%
Maintenance	10,002	8,427	1,575	18.7%
Taxes on income	9,587	15,481	(5,894)	-38.1%
Other taxes	7,855	7,591	264	3.5%
Total operating expenses	175,593	166,173	9,420	5.7%
Operating income	34,818	38,468	(3,650)	-9.5%
OTHER INCOME (LOSS) - LOSS	252	(172)	424	-246.5%
INTEREST CHARGES	18,072	16,569	1,503	9.1%
NET INCOME	\$ 16,998	\$ 21,727	\$ (4,729)	-21.8%

Net income for the twelve months ended June 30, 2003 decreased 21.8% to \$17.0 million, equivalent to \$1.12 per common share on a basic and fully diluted basis, compared to \$21.7 million or \$1.43 per share for the twelve months ended June 30, 2002.

Operating Revenues

For the twelve months ended June 30, 2003, revenues from water operations decreased slightly by 1.0% to \$184.8 million compared to \$186.7 million for the twelve months ended June 30, 2002. The decrease was due primarily to a decrease of 1.0% in water consumption, and the termination of a surcharge totaling \$1.3 million, which was authorized to decrease the balancing account under-collection in SCW's Metropolitan customer service area. These decreases were offset by rate increases in Region II as discussed earlier, and step and attrition rate increases in the customer service areas that comprise SCW's Region I which were effective January 2002 and January 2003, respectively.

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For the twelve months ended June 30, 2003, revenues from electric operations increased by 43.4% to \$24.6 million compared to \$17.2 million for the twelve months ended June 30, 2002. As discussed earlier, the increase reflects rate increases in July 2002 authorized by the CPUC to cover purchased power costs under various power supply agreements. In addition, there was an increase of 3.4% in kilowatt-hour consumption, primarily due to heavier use of snow making machines at ski resorts in the area in the fourth quarter of 2002.

Operating Expenses

For the twelve months ended June 30, 2003, purchased water costs increased by 10.6% to \$42.9 million compared to \$38.8 million for the twelve months ended June 30, 2002. The increase was due to an increase in purchased water volume resulting from additional purchased water necessary during the twelve months ended June 30, 2003 to replace pumped water supply lost due to wells being removed from service as a result of water quality issues and mechanical problems, particularly in SCW's Arden/Cordova, Orange County and Foothill districts. For the twelve months ended June 30, 2003, 47% of the supply mix was purchased as compared to 43% purchased water for the twelve months ended June 30, 2002. In addition, the twelve-months ended June 30, 2003 include costs of approximately \$1.4 million, incurred in connection with the purchasing and trucking of water, in SCW's Wrightwood customer service area due to a sudden and unexplained drop in groundwater level in the area during the early part of the third quarter of 2002. The water hauling ended in January 2003.

For the twelve months ended June 30, 2003, cost of power purchased for pumping decreased slightly by 1.0% to \$10.5 million compared to \$10.6 million for the twelve months ended June 30, 2002 due to slightly lower consumption and additional wells down for maintenance and water quality issues. The effect of wells being offline was partially offset by increased power rates. Additionally, a credit of \$440,000 recorded in the fourth quarter of 2001 for the sale of groundwater in the Chino Basin also impacted the twelve-month comparison. There was no similar credit in the comparable periods of 2003.

For the twelve months ended June 30, 2003, cost of power purchased for resale to customers in SCW's Bear Valley Electric division decreased by 38.1% to \$12.1 million compared to \$19.6 million for the twelve months ended June 30, 2002. This significant decrease is due to (i) lower power costs at a price of \$74.65 per megawatt hour (MWh) effective November 2002 under SCW's power supply agreements with PWCC as compared to \$95 per MWh for energy purchased from Mirant under then existing contracts in the same period of 2002, (ii) additional accruals of \$2.2 million for purchased power costs based on adjusted invoices received in April of 2002 from Dynegy for purchased power incurred during prior periods. There were no comparable accruals during the twelve months ended June 30, 2003; and (iii) the reversal of an accrual totaling approximately \$2.2 million in October 2002 resulting from a settlement with Dynegy.

For the twelve months ended June 30, 2003, the \$1.3 million pre-tax unrealized loss on purchased power contracts resulted from the contract prices with PWCC being higher than current forward market prices. There is no cash flow impact of this loss.

For the twelve months ended June 30, 2003, groundwater production assessments increased by 2.9% to \$7.2 million compared to \$7.0 million for the twelve months ended June 30, 2002 due primarily to higher assessments levied against production for the water year 2002-2003 as compared with the previous year.

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An increase of \$15.8 million during the twelve months ended June 30, 2003 in the provision for supply cost balancing accounts when compared to the twelve months ended June 30, 2002 primarily reflects new rates and surcharges authorized in 2001 and 2002 to recover electric power costs and under-collection in the electric balancing account. Discussion under the power purchased for resale also impact the supply cost balancing accounts.

For the twelve months ended June 30, 2003, other operating expenses increased by 10.5% to \$18.2 million compared to \$16.5 million for the twelve months ended June 30, 2002 due primarily to higher water treatment costs and labor costs which increased by almost \$1.7 million.

For the twelve months ended June 30, 2003, administrative and general expenses decreased by 8.5% to \$33.0 million compared to \$36.0 million for the twelve months ended June 30, 2002 due primarily to the reversal of the remaining reserve of \$6.5 million in the fourth quarter of 2002 for potential non-recovery of electric power costs incurred to serve customers at SCW's Bear Valley Electric customer service area. The reserve was established in late 2001, which also impact the comparison between periods, to offset future impacts to earnings for the difference between authorized rates and SCW's actual electric power costs under its agreement with Mirant. The agreements SCW entered into with PWCC in September 2002 enable it to purchase power at a cost lower than that authorized by the CPUC, thereby removing the need for the reserve. The decrease was offset by an increase totaling approximately \$5.9 million in outside services primarily for new business development, legal costs incurred in the Edison lawsuit for Bear Valley Electric, and legal costs for various power purchase contracts. In addition, there was an approximately \$2 million increase in pensions and benefits due to actuarial assumption changes in the discount rate and expected long-term rate of return on plan assets, and increases in various benefit costs.

For the twelve months ended June 30, 2003, depreciation expense increased by 5.6% to \$19.1 million compared to \$18.1 million for the twelve months ended June 30, 2002 reflecting, among other things, the effects of recording approximately \$51 million in utility plant during 2002, depreciation on which began in January 2003.

For the twelve months ended June 30, 2003, maintenance expense increased by 18.7% to \$10.0 million compared to \$8.4 million for the twelve months ended June 30, 2002 due principally to the termination mentioned earlier of SCW's Cash Preservation Program ("CPP") in August 2002 following the CPUC's approval of rate increases permitting SCW to begin recovery of power costs incurred during the energy crisis of 2000-2001 to serve customers of its Bear Valley Electric division.

For the twelve months ended June 30, 2003, taxes on income decreased by 38.1% to \$9.6 million compared to \$15.5 million for the twelve months ended June 30, 2002 due primarily to lower pre-tax operating income.

For the twelve months ended June 30, 2003, other taxes increased by 3.5% to \$7.9 million compared to \$7.6 million for the twelve months ended June 30, 2002 reflecting additional property taxes resulting from higher assessed values, and increases in payroll taxes based on increased labor costs.

Other Income (Loss)

For the twelve months ended June 30, 2003, other income (loss) increased to \$252,000 income compared to (\$172,000) loss for the twelve months ended June 30, 2002 due to recording of certain non-regulated expenses to administrative and general expenses of ASUS, a non-regulated subsidiary which totaled approximately \$700,000, and the write-off of approximately \$312,000 in expenses associated with the termination of the acquisition of Peerless Water Co. in the fourth quarter of 2001. These increases were offset by the sale of a parcel of non-operating property in Region II of SCW in the first quarter of 2002 for which there was a gain of approximately \$506,000.

Interest Charges

For the twelve months ended June 30, 2003, interest expense increased by 9.1% to \$18.1 million compared to \$16.6 million for the twelve months ended June 30, 2002 due primarily to the issuance of \$50 million in long-term debt by SCW in December 2001.

Accounting for Supply Costs

As permitted by the CPUC, SCW has historically maintained water and electric supply balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Costs have been recorded in income and charged to balancing accounts when such costs were incurred. The balancing accounts were reversed when such costs were recovered through rate adjustments or through refunds of previously incurred costs. SCW accrued interest on its supply cost balancing accounts at the rate prevailing for 90-day commercial paper. CCWC does not maintain a supply cost balancing account.

On November 29, 2001, the CPUC ordered water utilities with existing water supply balancing accounts to cease booking amounts to such accounts. In its place, water utilities are now required to establish a memorandum account. The over- or under-collection of water supply costs are recorded in this memorandum account in a manner similar to the balancing account. The income statements of SCW no longer include entries reflecting differences between authorized water supply unit costs included in rates and actual water supply costs. As a result, any changes in water supply costs as well as any future authorized revenue increases for supply expenses may directly impact earnings. SCW's basic earnings per share for the three, six and twelve months ended June 30, 2003 were \$0.03, \$0.07 and \$0.22, respectively, less than they would have been if the November 2001 CPUC order had not been issued.

In a decision issued on June 19, 2003 related to the memorandum supply cost account, the CPUC concluded that (i) if a utility is within its rate case cycle and does not earn over its authorized rate of return, the utility is entitled to recover its costs in the memorandum supply cost account, subject to a reasonableness review by the CPUC; (ii) if a utility is either within or outside of its rate case cycle and earns over the authorized return, the utility's recovery of expenses from the memorandum supply cost account will be reduced by the amount exceeding the authorized rate of return; and (iii) a utility is required to seek review of under and over collections by filing an advice letter annually by March 31. The CPUC also authorized water utilities, including SCW, to file advice letters seeking account review for November 29, 2001 through December 31, 2002 within 90 days of this decision. SCW has an under-collected balance of approximately \$3.1 million in its memorandum supply cost account from November 29, 2001 to December 31, 2002. We intend to file advice letters seeking recovery before the due date of September 19, 2003, pending clarification by the CPUC of certain procedures in the June 19, 2003 decision. As of June 30, 2003, SCW has an under-collection of approximately \$4.7 million in its memorandum supply cost account, and intends to file advice letters annually by March 31.

SCW has a net under-collection position of \$2.5 million recorded in its water supply balancing account at June 30, 2003 related to pre-November 29, 2001 activities. Of these amounts, recovery of approximately \$0.3 million has been included in rates prior to November, 29, 2001. Pursuant to an order issued in December 2002 by the CPUC, authorizing water utilities to file advice letters, SCW filed such advice letters for the under recovered balance of \$2.2 million on March 17, 2003, requesting recovery of the balancing accounts prior to November 29, 2001. On June 19, 2003, the CPUC authorized increases in rates of \$2.1 million in total, effective June 24, 2003, for SCW to recover the pre-November 29, 2001 balances. The remaining \$75,000 is to be deferred to the next rate case of Region I.

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Electric power costs incurred by SCW's Bear Valley Electric division continue to be charged to its electric supply cost balancing account. The under-collection in the electric balancing account is \$23.6 million at June 30, 2003. The CPUC has authorized SCW to collect a surcharge from its customers of 2.2¢ per kilowatt hour for a period of up to ten years to enable SCW to recover this under-collection. SCW sold 28,287,000, 67,972,000 and 132,620,000 kilowatt hours of electricity, respectively, to its Bear Valley Electric division customers for the three, six and twelve months ended June 30, 2003, and 27,981,000, 67,178,000 and 128,234,000 kilowatt hours for the comparable periods in 2002, respectively. SCW anticipates that electricity sales during the ten year period will be sufficient to enable it to recover the amount of this under-collection during this ten year period. For further information, see the sections entitled "Regulatory Matters" and "Electric Energy Situation in California" included in Part I, Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Critical Accounting Policies

Critical accounting policies 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. The following are examples of accounting policies that are critical to the financial statements of AWR.

Accounting for Rate Regulation

- Management believes that regulation and the effects of regulatory accounting have the most significant impact on the financial statements. When either SCW or CCWC file for adjustments to rates, capital assets, operating costs and other matters are subject to review, and disallowances could occur. Regulatory disallowances in the past have not been frequent but have on occasion significantly impacted AWR's results of operations.
- The utility subsidiaries, SCW and CCWC, have incurred various costs and received various credits reflected as regulatory assets and liabilities. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation". This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS 71, utility companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service. If rate recovery is no longer probable, Registrant is required to write off the related regulatory asset.
- Registrant's income tax calculations require estimates due principally to the regulated nature of the operations of SCW and CCWC, the multiple states in which Registrant operates, and potential future tax rate changes. Registrant uses the asset and liability method of accounting for income taxes under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A change in the regulatory treatment, or significant changes in tax-related estimates or assumptions or changes in law, could have a material impact on the financial position and results of operations of Registrant.

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- Depreciation is computed at composite rates, based on depreciable plant at the beginning of each year, considered sufficient to amortize costs over the estimated remaining lives of assets. Depreciation studies are performed periodically and prospective changes in rates are estimated to make up for past differences. These studies are reviewed and approved by either the CPUC or the ACC. Changes in estimates of depreciable lives or changes in depreciation rates mandated by regulations could impact results of operations of Registrant in periods subsequent to the change. Depreciation is computed on the straight-line, remaining-life basis.
- As prescribed by the CPUC under its Uniform System of Accounts for Water Utilities, SCW is allowed to capitalize a portion of general costs such as engineering, supervision, general office salaries and expenses, legal expenses, insurance, injuries and damages, pensions and benefits, and taxes, as overhead construction costs included in SCW's Utility Plant. All overhead construction costs are charged to jobs on the basis of the amounts of such overhead expenses reasonably applicable thereto, so that each job bears its equitable proportion of such costs and its direct costs.

Accounting for Derivative Instruments

In June 1998, the FASB issued SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*". A derivative financial instrument or other contract derives its value from another investment or designated benchmark. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets and liabilities, and to measure those instruments at their fair value. SCW is a party to various block-forward purchase power contracts. Certain of these contracts qualify as an exception provided under SFAS No. 133 for activities that are considered normal purchases and normal sales. These contracts are reflected in the statements of income at the time of contract settlement. Contracts that do not qualify for the normal purchases and normal sales exception have been recognized at fair market value on the balance sheet as an asset or liability and an unrealized gain or loss against earnings. On a quarterly basis, the related asset or liability will be adjusted to reflect the fair market value at the end of the quarter. As these contracts are settled, the realized gains or losses will be recorded and the unrealized loss will be reversed.

The unrealized gains for the three and six months ended June 30, 2003 resulted from increases in the current forward market prices since December 31, 2002 which resulted in a decrease in the cumulative unrealized loss for the contracts. For the twelve months ended June 30, 2003, the unrealized loss resulted from the contract prices with PWCC being higher than current forward market prices. There is no cash flow impact for the gains and losses. Management is evaluating alternatives to minimize future unrealized loss. These unrealized gains and losses at Bear Valley Electric will continue to impact earnings during the life of the contract with Pinnacle West; both negatively and positively. The end result is projected to be a net zero impact on Bear Valley Electric earnings at the end of the contract period, in 2008.

Accounting for Asset Retirement Obligations

SFAS No. 143, "*Accounting for Asset Retirement Obligations*," requires businesses to record the fair value of a liability for a legal obligation to retire an asset in the period in which the liability is incurred. A legal obligation is a liability that a party is required to settle as a result of an existing or enacted law, statute, ordinance or contract. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Registrant adopted SFAS No. 143 on January 1, 2003, as required. Registrant's legal obligations for retirement reflect principally the retirement of wells, which by law need to be disposed of at removal. As such, the regulated subsidiaries of Registrant incur asset retirement obligations. Retirement cost has historically been recovered through rates at the time of

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retirement. As a result, the cumulative effect upon adoption was reflected as a regulatory asset or liability. Accordingly, Registrant will also reflect the gain or loss at settlement as a regulatory asset or liability on the balance sheet.

Upon adoption on January 1, 2003, Registrant recorded an asset retirement obligation of \$13.2 million at its net present value of \$2.7 million, increased depreciable assets by \$0.4 million for asset retirement costs, increased regulatory assets by \$2.5 million and increased accumulated depreciation by \$0.2 million. Amounts recorded under SFAS No. 143 are subject to various assumptions and determinations, such as determining whether a legal obligation exists to remove assets, and estimating the fair value of the costs of removal, when final removal will occur and the credit-adjusted risk-free interest rates to be utilized on discounting future liabilities. Changes that may arise over time with regard to these assumptions will change amounts recorded in the future. The following is a reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligations ("ARO"):

	For The Six Months Ended June 30, 2003				
	Balance at Adoption January 1, 2003	Liabilities Incurred	Liabilities Settled	Accretion	Balance At June 30, 2003
ARO	\$2,718,079	—	—	102,316	\$2,820,395

Accounting for Pension and Other Postretirement Benefits

Registrant records plan assets, obligations and expenses related to its pension and other postretirement benefit plans based on actuarial valuations. Key assumptions in these valuations include discount rates, expected returns on plan assets, compensation increases and health care cost trend rates. Registrant believes that the assumptions utilized in recording obligations under the plans are reasonable based on prior experience, market conditions and the advice of its plan actuary. Net periodic pension cost is expected to increase from \$1.8 million for the plan year ended December 2002 to \$3.0 for the year ending December 31, 2003 due to actuarial assumption changes in discount rate and expected long-term rate of return on plan assets. Postretirement benefit cost is also expected to increase. The increases are generally recovered through rates. Net periodic pension and postretirement benefit costs for 2003 were computed using a discount rate and expected long-term rate of return on plan assets of 6.75% and 7.0%, respectively, as compared to 7.25% and 8.0% in 2002. Both pension and postretirement liabilities, and future pension and postretirement expense increase as the discount rate is reduced. In addition, pension and postretirement expense increases as the expected rate of return on plan assets decreases.

Unbilled Revenues

SCW and CCWC record water and electric utility operating revenues when the service is provided to customers. Operating revenues include unbilled revenues which are earned (service has been provided) but not billed by the end of each accounting period. By using the billed revenues based on the last meter reading and billed customer numbers, an average amount billed per customer is used to estimate the unbilled revenues for estimated average remaining days to the end of the reporting period. Unbilled revenues are recorded for both monthly and bi-monthly customers.

Liquidity and Capital Resources

AWR

Net cash provided by operating activities was \$12.5 million for the six months ended June 30, 2003 as compared to \$17.2 for the six months ended June 30, 2002. The decrease of \$4.7 million in cash provided by operations was primarily attributable to the decreases in net income, and deferred income taxes and investment tax credits.

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Net cash used in investing activities was \$17.5 million for the six months ended June 30, 2003 as compared to \$20.7 million for the six months ended June 30, 2002. The decrease in cash used from investing activities is due to reduced capital expenditures.

Net cash used in financing activities was \$7.8 million for the six months ended June 30, 2003 as compared to \$15.6 million for the six months ended June 30, 2002. The decrease was due primarily to (i) the redemption of preferred shares in 2002 totaling \$1.9 million, and (ii) a reduction of \$5 million in payments made to banks for notes payable.

AWR funds its operating expenses and pays dividends on its outstanding Common Shares primarily through dividends from its subsidiaries, principally SCW. AWR has a Registration Statement on file with the Securities and Exchange Commission (SEC) for issuance, from time to time, of up to \$60 million in Common Shares, Preferred Shares and/or debt securities. As of June 30, 2003, approximately \$31.1 million remained for issuance under this Registration Statement. AWR intends to issue approximately \$31 million of common shares pursuant to this Registration Statement within the next 120 days. The net proceeds will be used to make equity investments in SCW and ASUS.

In June 2002, AWR established a \$75 million revolving credit facility which matures in June 2005. Up to \$15 million of this facility may be used for letters of credit. As of June 30, 2003, an aggregate of \$33 million in cash borrowing was outstanding. Approximately \$8 million of letters of credit were outstanding under this facility.

On April 19, 2002, AWR completed the redemption of all of its outstanding 4%, 4¼% and 5% series of preferred shares.

SCW

Net cash provided by operating activities was \$12.7 million for the six months ended June 30, 2003 as compared to \$8.2 for the six months ended June 30, 2002. The increase of \$4.5 million in cash provided by operations was primarily attributable to an \$8.1 million favorable change in intercompany balances between the two periods, offset by the decreases in net income, and deferred income taxes and investment tax credits.

Net cash used in investing activities was \$16.3 million for the six months ended June 30, 2003 as compared to \$20.3 million for the six months ended June 30, 2002. The decrease in cash used from investing activities is due to reduced capital expenditures.

Net cash used in financing activities was \$7.3 million for the six months ended June 30, 2003 as compared to \$7.2 million for the six months ended June 30, 2002.

SCW funds the majority of its operating expenses, payments on its debt, and dividends on its outstanding common shares 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, environmental regulation, litigation, changes in supply costs and regulatory decisions affecting SCW's ability to recover these supply costs, and timing of rate relief. For further information, see the sections entitled "*Risk Factors*" and "*Electric Energy Situation in California*" included in Part I, Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

SCW also relies on external sources, including equity investments and short-term borrowings from AWR, long-term debt, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures. On March 30, 2001, AWR

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made an additional \$25 million equity investment in SCW. On November 14, 2001, SCW filed a Registration Statement with the SEC for issuance, from time to time, of up to \$100 million in debt securities. In December 2001, SCW issued \$50 million of long-term debt under this Registration Statement that initially reduced bank borrowings incurred to fund capital expenditures and purchased power costs.

CCWC

CCWC funds the majority of its operating expenses, payments on its debt and dividends, if any, through internal sources. CCWC also relies on external sources, including long-term debt, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures.

ASUS

ASUS funds its operating expenses primarily through contractual management fees and investments by or loans from AWR.

Contractual Obligations and Other Commitments

In addition to contractual maturities, Registrant has certain debt instruments that contain 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 principal payments are generally made from cash flow from operations. In the case of the \$12,500,000 in notes due October 2003, SCW intends to refinance this obligation through issuance of equity to its parent, AWR.

The following table reflects Registrant's contractual obligations and commitments to make future payments pursuant to contracts as of June 30, 2003. All obligations and commitments are obligations and commitments of SCW unless otherwise noted.

(\$ in thousands)	Payments/Commitments Due by Period (1)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Notes/Debentures(2)	\$185,600	\$12,500	—	—	\$173,100
Private Placement Notes(3)	28,000	—	—	—	28,000
Tax-Exempt Obligations(4)	19,354	91	194	218	18,851
Other Debt Instruments(5)	2,383	188	404	453	1,338
Purchased Power Contracts(6)	65,768	12,014	23,988	23,947	5,819
Operating Leases (7)	5,934	1,794	3,257	883	—
Other Commitments (8)	76,945	—	—	—	—
Chaparral City Water Co. (9)	8,744	526	1,083	550	6,585
TOTAL	\$392,728	\$27,113	\$28,926	\$26,051	\$233,693

(1) Excludes interest, dividends, commitment and facility fees.

(2) The Notes and Debentures are issued under an Indenture dated as of September 1, 1993. The Notes and Debentures do not contain any financial covenants that Registrant believes to be material, or cross default provisions.

(3) The private placement notes are issued pursuant to the terms of Note Agreements with substantially similar terms. The Note Agreements contain restrictions on the payment of dividends, minimum interest

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coverage requirements, maximum debt to capitalization ratio and a negative pledge. Pursuant to the Note Agreements, SCW must maintain a minimum interest coverage ratio of two times interest expense. SCW does not currently have any outstanding mortgages or other encumbrances on its properties.

(4) Consists of obligations under a loan agreement supporting \$8 million in debt issued by the California Pollution Control Financing Authority, \$6 million in obligations supporting \$6 million in certificates of participation issued by the Three Valleys Municipal Water District and \$5.5 million of obligations incurred by SCW with respect to its 500 acre foot entitlement to water from the State Water Project (SWP). Except as described in paragraph (6) below, these obligations do not contain any financial covenants believed to be material to Registrant or any cross default provisions. SCW's obligations with respect to the certificates of participation issued by the Three Valleys Municipal Water District are supported by a letter of credit issued by Wells Fargo Bank. In regards to its SWP entitlement, SCW has entered into agreements with various developers for 439 acre-feet, in aggregate, of its 500 acre-foot entitlement to water from the SWP.

(5) Consists of \$1.5 million outstanding under a fixed rate obligation incurred to fund construction of water storage and delivery facilities with the Three Valleys Municipal Water District, \$0.5 million outstanding under a variable rate obligation incurred to fund construction of water delivery facilities with the Three Valleys Municipal Water District and an aggregate of \$0.4 million outstanding under capital lease obligations. These obligations do not contain any financial covenants believed to be material to Registrant or any cross default provisions.

(6) Consists of \$65.8 million of purchased power contracts until December 2008.

(7) Reflects Registrant's future minimum payments under non-cancelable operating leases.

(8) Other commitments of Registrant consist of (i) \$75 million syndicated revolving credit facility, expiring in June 2005, (ii) a \$966,534 irrevocable letter of credit, which is reviewed at the end of each year for adjustment, for its self-insured workers compensation plan, (iii) an amount of \$296,000 with respect to a \$6,296,000 irrevocable letter of credit issued by Wells Fargo Bank to support the certificates of participation of Three Valleys Municipal Water District (the other \$6,000,000 is reflected under tax-exempt obligations), (iv) an irrevocable letter of credit in the amount of \$400,000 that expires on October 2003 for the deductible in Registrant's business automobile insurance policy (v) an irrevocable letter of credit that expires June 30, 2005 for its energy scheduling agreement with Automated Power Exchange as security for the purchase of power; the amount of the credit is \$585,000 for the months from November to March, and \$270,000 to cover the months from April to October, and (vi) outstanding performance bonds of \$11,675 to secure performance under franchise agreements with governmental agencies. All of the letters of credit are issued pursuant to the syndicated revolving credit facility. The syndicated revolving credit facility contains restrictions on prepayments, deposition of property, mergers, liens and negative pledges, indebtedness and guaranty obligations, transactions with affiliates, minimum interest coverage requirements, a maximum debt to capitalization ratio, and a minimum debt rating. Pursuant to the Credit Agreement, AWR must maintain a minimum interest coverage ratio of 3.25 times interest expense, a maximum total funded debt ratio of 0.65 to 1.00 and a minimum debt rating of Baa1 or BBB+.

(9) Consists of \$7.9 million of obligations under a loan agreement supporting Industrial Development Revenue Bonds due in 2006 and a \$0.9 million repayment obligation to the United States Bureau of Reclamation. The loan agreement contains provisions that establishes a maximum of 65% debt in the capital structure, limits cash distributions when the percentage of debt in the capital structure exceeds 55% and requires a debt service coverage ratio of two times. The Bureau of Reclamation obligation does not contain any financial covenants believed to be material to Registrant or any cross default provisions.

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Under the terms of its power purchase contracts with Mirant and PWCC, SCW is required to post security, at the request of the seller, if SCW is in default under the terms of the contract and the future value of the contract is greater than the future value of contracts of a similar term on the date of default. SCW will be in default under the terms of these contracts if its debt is rated less than BBB- by Standard & Poor's Ratings Service ("S&P") or Fitch, Inc. ("Fitch") or less than Baa3 by Moody's Investor Services, Inc ("Moody's"). SCW currently has a rating of A+ by S & P and A2 by Moody's. Fitch does not rate SCW.

S&P debt ratings range from AAA (highest rating possible) to D (obligation is in default). Moody's debt ratings range from Aaa (best quality) to C (lowest quality). 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 agency.

Electric Energy Situation in California

Background Information

On January 17, 2001, the Governor of the State of California proclaimed a state of emergency in California due to shortages of electricity available to certain of California's utilities (resulting in blackouts), the unanticipated and dramatic increases in electricity prices and the insufficiency of electricity available from certain of California's utilities to prevent disruption of electric service in California. The Federal Energy Regulatory Commission ("FERC") also implemented a number of changes to the tariff for the California Independent Operator System ("Cal ISO") beginning in December 15, 2000 in an attempt to stabilize the market. The reasons for the high cost of energy are under investigation but are reported to include, among other things, limited supply caused by a lack of investment in new power plants to meet growth in demand, planned and unplanned outages of power plants, decreased availability of hydroelectric power from the Pacific Northwest due to lower than usual precipitation and higher demand for electricity in the region, transmission line constraints, increased prices for natural gas, the fuel used in many of the power plants serving the region, a dysfunctional power market and market manipulation through the withholding of generation and a variety of "gaming" strategies.

As of June 30, 2003, SCW had accrued \$23.6 million in under-collected power costs that SCW mostly incurred during the energy crisis in connection with providing service to its Bear Valley Electric customers. In addition, SCW established \$7.9 million in reserves in 2001 for potential non-recovery of these power costs. In 2002, SCW charged \$1.7 million against the reserves due to its inability to recover all of its costs associated with entering into a long-term power contract with Mirant in March 2001. In the fourth quarter of 2002, SCW reversed the remaining reserves due to various new contracts entered into with PWCC in September 2002 as discussed below.

On July 17, 2002, the FERC extended and modified the mitigation measures that were set to expire on September 30, 2002, citing delays in construction of new generation resources in California and throughout the West, delays in adopting a new market design and market rules by the Cal ISO, transmission line constraints, constraints on natural gas pipeline capacity and continuing dysfunctions in the California power market. It remains unclear how long the FERC will leave its mitigation measures in place. The premature termination of such mitigation measures could result in a substantial increase in spot market prices and the prices of long-term contracts for power and capacity. In addition, FERC is considering a number of market reforms, some of which could materially increase SCW's costs for power.

Power Supply Arrangements at SCW's Bear Valley Electric Service Area

All electric energy sold by SCW to customers in its Bear Valley Electric customer service area is purchased from others. In May 2000, SCW entered into a one-year, block forward purchase contract with Dynegy for 12 MWs of electric energy at a price of \$35.50 per MWh. This contract expired April 30, 2001. Under the terms of contracts with Dynegy that expired on April 30, 2002, Dynegy provided electric energy to SCW, acted as scheduling coordinator and provided other ancillary services. Various disputes arose between the parties regarding the services provided by Dynegy and the amounts charged by Dynegy. As a result of these disputes, SCW withheld payment from Dynegy of certain amounts invoiced by Dynegy. On November 1, 2002, Dynegy accepted a payment of \$3.5 million from SCW as payment in full for the disputed amounts.

SCW entered into a five-year nine-month, block forward purchase contract with Mirant for 15 MWs of electric energy at a price of \$95 per MWh beginning April 1, 2001 through December 31, 2006. On December 20, 2001, SCW filed a complaint with FERC seeking to reduce the amount charged by Mirant under the terms of this contract to a just and reasonable price. In June 2003 the FERC issued a final order denying SCW's complaint. SCW has appealed this decision at the FERC in order to preserve its rights to further seek relief in federal court if FERC denies SCW's appeal.

In June 2001, SCW executed an agreement with PWCC for an additional 8 MWs of electric energy to meet peak winter demands. The contract provided for pricing of \$75 per MWh from November 1, 2001 to June 30, 2002, \$48 per MWh from November 1, 2002 to June 30, 2003, and \$36 per MWh from November 1, 2003 to June 30, 2004.

In September 2002, SCW entered into a series of purchased power contracts with PWCC. Under the agreements, SCW will sell 15 MWs to PWCC of electric energy at a price of \$95 per MWh beginning November 1, 2002 through December 31, 2006, and the 8 MWs of electric energy covered under the energy purchase agreement with PWCC discussed previously. In return, PWCC will supply SCW with 15 MWs of electric energy at a price of \$74.65 per MWh beginning November 1, 2002 through December 31, 2008, and an additional 8 MWs at \$74.65 per MWh beginning on November 1, 2002 through June 30, 2003 and each succeeding November 1 through March 31 period through June 30, 2008, and for the period November 1, 2008 through December 31, 2008. These contracts do not qualify for the normal purchases and normal sales exception, under SFAS No. 133, and have been recognized at fair market value on the balance sheet as a liability of \$1.3 million at June 30, 2003 and an unrealized gain of \$1.6 and \$1.2 million, respectively, against earnings for the three and six months ended June 30, 2003.

The average minimum load at SCW's Bear Valley Electric customer service area has been approximately 12 MWs. The average winter load has been 18 MWs with a winter peak of 39 MWs when the snowmaking machines at the ski resorts are operating. In addition to the power purchase contracts, SCW buys additional energy from the spot market to meet peak demand and sells surplus power to the spot market as well. The average cost of power purchased, including the transactions in the spot market, was approximately \$77.6, \$79.5 and \$84.4 per MWh, respectively, for the three, six and twelve months ended June 30, 2003. SCW's average energy costs will be impacted by pricing fluctuation at the spot market.

Transmission Constraints

Demand for energy in SCW's Bear Valley Electric customer service area generally has been increasing. However, the ability of SCW to deliver purchased power to these customers is limited by the ability of the transmission facilities owned by Southern California Edison Company (Edison) to transmit this power. On December 27, 2000, SCW filed a lawsuit against Edison for breach of contract as a result of delays in upgrading these transmission facilities as well as for violations of good faith and fair dealing,

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negligent misrepresentation, intentional misrepresentation and unjust enrichment. As a result of the delays and the pending litigation, it is unlikely that the transmission upgrade will occur. Therefore, SCW is constructing a natural gas-fueled 8.4 MW generation facility to be owned by SCW as a means of meeting these increasing demands for energy. A Certificate of Public Convenience and Necessity filed with the CPUC seeking authorization for construction of the generation facility was approved on July 10, 2003.

Construction Program

SCW maintains an ongoing water distribution main replacement program throughout its customer service areas based on the priority of leaks detected, fire protection enhancement and a reflection of the underlying replacement schedule. In addition, SCW upgrades its electric and water supply facilities in accordance with industry standards, local requirements and CPUC requirements. SCW's Board of Directors has approved anticipated net capital expenditures of approximately \$81.6 million for 2003 principally reflecting the 2003 infrastructure replacement program in SCW's Metropolitan customer service area, a water treatment plant upgrade, water supply related projects, and security related costs.

CCWC's Board of Directors has approved a net capital budget of \$3.0 million for 2003 primarily reflecting improvement and upgrade of a water treatment plant. It is anticipated that CCWC's capital budget may be increased by up to \$600,000 if it is determined by the ACC that CCWC should construct additional water infrastructure to serve new development in its service territory without developer advances.

AWR and ASUS have no material capital commitments. However, ASUS actively seeks opportunities to own, lease or operate water and wastewater systems for governmental entities, which may involve significant capital commitments.

Registrant does not have any material capital expenditures for specific environmental control facilities or measures.

Regulatory Matters

Rate Regulation

SCW is subject to regulation by the CPUC, which has broad powers with respect to service and facilities, rates, classifications of accounts, valuation of properties, the purchase, disposition and mortgaging of properties necessary or useful in rendering public utility service, the issuance of securities, the granting of certificates of public convenience and necessity as to the extension of services and facilities and various other matters. CCWC is subject to regulation by the ACC.

Rates that SCW and CCWC are authorized to charge are determined by the CPUC and the ACC, respectively, in general rate cases and are derived using rate base, cost of service and cost of capital, as projected for a future test year in California and using an historical test year, as adjusted in Arizona. Rates charged to customers vary according to customer class and rate jurisdiction and are generally set at levels allowing for recovery of prudently incurred costs, including a return on rate base. Rate base generally consists of the original cost of utility plant in service, plus certain other assets, such as working capital and inventory, less accumulated depreciation on utility plant in service, deferred income tax liabilities and certain other deductions.

Neither AWR nor ASUS are directly regulated by the CPUC. The CPUC does, however, regulate certain transactions between SCW and its affiliates. The ACC also regulates certain transactions between CCWC and its affiliates.

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For rate-making purposes, the 22 customer service areas of SCW are grouped into 9 water districts and 1 electric district. Water rates vary among the 9 water ratemaking districts due to differences in operating conditions and costs. SCW monitors operations on a regional basis in each of these districts so that applications for rate changes may be filed, when warranted. Under the CPUC's practices, rates may be increased by three methods: (i) general rate case increases (GRC's), (ii) offsets for certain expense increases, including, but not limited to, supply cost offset and balancing account amortization, and (iii) advice letter filings related to certain plant additions and other operating cost increases. GRC's are typically for three-year periods, which include step increases for the second year and attrition increases for the third year. Rates are based on a forecast of expenses and capital costs. GRC's have a typical regulatory lag of one year. Offset rate increases and advice letter filings typically have a two to four month regulatory lag. In addition, recovery of water supply costs incurred after November 29, 2001 will be considered as part of GRC's.

Changes in Rates

Step increases of approximately \$321,600 for four of seven ratemaking districts in SCW's Region I were implemented in January 2002. Region I also received attrition increases of \$219,400 effective January 2003.

On January 16, 2003, the CPUC approved rate increases of approximately \$2.7 million annually, effective January 22, 2003, in SCW's Metropolitan district to recover costs associated with an increase in Region II rate base due to SCW's 2002 infrastructure replacement program and, additionally, to recover general increases in operating expenses. On January 31, 2003, the CPUC also approved SCW's Advice Letter filed for the 2003 infrastructure replacement program with rate increases of \$3.5 million annually effective February 4, 2003.

As of June 30, 2003, SCW had accrued approximately \$23.6 million in under-collected purchased power costs included in the electric balancing account. In 2001, the CPUC approved two Advice Letters which allow SCW to collect a surcharge of 2.2¢ per kilowatt hour, for recovery of its under-collection in the electric balancing account for costs incurred during the energy crisis.

On August 17, 2001, SCW filed an application with the CPUC seeking recovery of an average cost of \$87 per megawatt hour (MWh) for electric energy purchased pursuant to power purchase contracts with Mirant and PWCC. On July 17, 2002, CPUC approved a settlement agreement reached among SCW, all intervening parties and the Office of Ratepayer Advocates (ORA). The authorization permits SCW to recover \$77 per MWh of purchased power costs through rates. SCW is allowed to include its actual purchased power costs up to an average annual weighted cost of \$77 per MWh each year, through August 2011, for 10 years in its balancing account. To the extent SCW's actual average annual weighted cost for purchased power is less than \$77 per MWh, the differential would offset amounts included in the electric supply balancing account. Conversely, to the extent that actual average annual weighted costs for power purchased exceed the \$77 per MWh amount, SCW would not be able to include these amounts in its balancing account and such amounts would be expensed against income.

The CPUC settlement also extended the previously approved surcharges of 2.2¢ per kilowatt hour for an additional five years through August of 2011 to allow SCW an opportunity to collect amounts remaining in its electric cost balancing account. SCW anticipates that electricity sales will be sufficient to enable SCW to fully recover the under-collection in its balancing account during this ten year period.

SCW previously established approximately \$7.9 million in reserves against potential non-recovery of electric power costs. In 2002, \$1.7 million was written off against the reserve based on the settlement with the CPUC as previously discussed. In September 2002, SCW entered into various agreements with PWCC, which enable SCW to purchase energy at a lower cost. As a result, the remaining reserve of \$6.5 million was reversed into income in 2002.

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The settlement requires SCW to pursue its complaint filed with FERC in which SCW has requested FERC to reduce the prices in its power purchase contract with Mirant to a just and reasonable price. If SCW is ultimately successful in obtaining a reduction in prices under this contract, SCW is required, based on the settlement, to file an Advice Letter to notify the CPUC within 30 days of the resolution of its complaint. In June 2003 the FERC issued a final order denying SCW's complaint. SCW has appealed this decision at the FERC. Mirant has filed a voluntary petition in bankruptcy. As a result, even if SCW is ultimately successful in obtaining a ruling in its favor, SCW's ability to recover any overpayments made to Mirant is in doubt.

Pending Rate Requests

On July 10, 2003, the CPUC approved the Certificate of Public Convenience and Necessity (CPCN) filed by SCW in March 2002 seeking authorization to construct an 8.4 MW natural gas-fueled generation facility on a portion of its property in the City of Big Bear Lake. The capital cost of the generating facility is estimated to be approximately \$13 million. The CPUC's order authorizes construction and enables SCW to file a rate application subsequently, to recover these costs.

In October 2002, SCW filed an application to increase water rates in the customer service areas that comprise Region III. SCW also filed a concurrent application requesting a rate increase applicable to SCW's entire customer base to recover costs associated with the general office functions of SCW. With a proposed return on equity of 12.45%, the new water rates in these filings, if fully approved by the CPUC, would generate an initial annual increase in revenues of approximately \$19.8 million for the Region III customer service areas, and \$6.0 million for all the other customer service areas of SCW. A final decision on these applications is not anticipated until the fourth quarter of 2003.

On January 31, 2003, SCW also filed Notices of Intent to the CPUC to increase water rates in the customer service areas that comprise its Region I and Region II. New rates, if approved by the CPUC, are not anticipated until the second quarter of 2004. As part of the Region I filing, SCW requested amortization of the balance of costs included in the Aerojet litigation memorandum account. For more information, see the section entitled "*Other Water Quality Litigations*" included in Part I, Item 3 in Legal Proceedings.

In 1993, the CPUC disallowed \$1.6 million of costs incurred in construction of a water treatment facility in SCW's Clearlake customer service area and Registrant wrote off the disallowed amount at that time. Based on new water quality standards, in 2000, SCW re-applied to the CPUC for inclusion of the disallowed amount in rate base. A draft decision issued on March 30, 2001 by the CPUC would have allowed SCW to include \$500,000 of the \$1.6 million in the regulated rate base. An alternate draft decision issued by one of the CPUC Commissioners proposed to deny the relief sought by SCW in its application. An Administrative Law Judge subsequently reopened the proceeding in August 2001 requiring additional information. We cannot predict when the final order will be issued, nor can we give assurance that the CPUC will ultimately allow recovery of all or any of the remaining costs through rates.

Other Regulatory Matters

On November 29, 2001, the CPUC adopted an Order Instituting Rulemaking (OIR) to (i) evaluate existing practices and policies, (ii) determine whether new procedures or policies for processing offset rate increases and balancing accounts should be made and (iii) determine whether the new memorandum account procedures adopted on November 29, 2001 should be made permanent.

Pursuant to a resolution issued by the CPUC on December 17, 2002, SCW filed advice letters on March 17, 2003 requesting recovery of \$2.2 million under-collections remaining in the balancing accounts for water supply costs incurred prior to November 29, 2001. On June 19, 2003, the CPUC

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authorized increases in rates in total of \$2.1 million, effective June 24, 2003, for SCW to recover the pre-November 29, 2001 balances. The remaining \$75,000 is to be deferred to the next rate case of Region I.

In a decision issued on June 19, 2003, the CPUC concluded that (i) if a utility is within its rate case cycle and does not earn over its authorized rate of return, the utility shall recover its account subject to reasonableness review by the CPUC; (ii) if a utility is either within or outside of its rate case cycle and earns over the authorized return, the utility's recovery of expenses from the accounts will be reduced by the amount exceeding the authorized rate of return; and (iii) a utility is required to seek review of under and over collections by filing an advice letter annually by March 31. The CPUC also authorized water utilities, including SCW, to file advice letters seeking account review for November 29, 2001 through December 31, 2002 within 90 days of this decision. SCW intends to file advice letters to recover the under-collected balance of approximately \$3.1 million before September 19, 2003. For more information, see the section entitled "Accounting for Supply Costs" included in Part I, Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operation

There are no active regulatory proceedings affecting CCWC or its operations.

Environmental Matters

1996 Amendments to Federal Safe Drinking Water Act

The U.S. Environmental Protection Agency (EPA) can only regulate contaminants that may have adverse health effects, 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 EPA has published a list of contaminants for possible regulation and must update that list every five years. In addition, every five years, the EPA must select at least five contaminants on that list and determine whether to regulate them. This law allows the EPA to bypass the selection process and adopt interim regulations for contaminants in order to address urgent health threats. The California Department of Health Services (DOHS), acting on behalf of the EPA, administers the EPA's program in California.

The EPA may base primary drinking water regulations on risk assessment and cost/benefit considerations and on minimizing overall risk. The EPA must base regulations on best available, peer-reviewed science and data from best available methods. For proposed regulations that involve the setting of maximum contaminant levels (MCL's), the EPA must use, and seek public comment on, an analysis of quantifiable and non-quantifiable risk-reduction benefits and costs for each such MCL.

SCW and CCWC currently test their wells and water systems according to requirements listed in the Safe Drinking Water Act ("SDWA"). Water from wells found to contain levels of contaminants above the established MCL's is treated to reduce contaminants to acceptable levels before it is delivered to customers. If treatment is not possible, the wells are shut down. Since the SDWA became effective, SCW and CCWC have experienced increased operating costs for testing to determine the levels, if any, of the constituents in their sources of supply and additional expense to lower the level of any contaminants in order to meet the MCL standards. Such costs and the costs of controlling any other contaminants may cause SCW and/or CCWC to experience additional capital costs as well as increased operating costs. The CPUC and ACC ratemaking processes provide SCW and CCWC with the opportunity to recover prudently incurred capital and operating costs associated with water quality. Management believes that such incurred and expected future costs should be authorized for recovery by the CPUC and ACC, as applicable.

Enhanced Surface Water Treatment Rules

The EPA has adopted Enhanced Surface Water Treatment Rules (ESWTR), which require increased surface-water treatment to decrease the risk of microbial contamination. These rules apply to each of SCW's five surface water treatment plants and CCWC's surface water treatment plant. Registrant anticipates that all plants will achieve compliance within the three-year to five-year time frames identified by EPA. Registrant is required to be in compliance by June 1, 2006. SCW is planning to build a new treatment plant in the Calipatria-Niland customer service area (see further discussion below under *Regulation of Disinfectant/Disinfection By-Products*) to bring that facility into compliance. Once this project is completed, all the surface water plants in SCW and CCWC should be in compliance with these rules.

Regulation of Disinfection/Disinfection By-Products

SCW and CCWC are also subject to regulations concerning disinfection/disinfection by-products (DBP's). Stage I of the regulations was effective in November 1998 with full compliance required for systems serving 10,000 or more persons by 2002 and for systems serving fewer than 10,000 persons by 2004. Stage I requires reduction of trihalomethane contaminants from 100 micrograms per liter to 80 micrograms per liter. SCW has already implemented modifications to the treatment process in its Bay Point and Cordova systems to achieve compliance and the Calipatria plant is undergoing treatment modifications, which will also address the requirements under the ESWTR, in order to comply with the DBP's by 2004.

The EPA is not allowed to use the cost/benefit analysis provided for in the 1996 SDWA amendments for establishing the Stage II rules applicable to DBP's but may utilize the regulatory negotiating process provided for in the 1996 SDWA amendments to develop the Stage II rule. The final rule is not expected until 2004.

Ground Water Rule

On May 10, 2000, the EPA published the proposed Ground Water Rule (GWR), which establishes multiple barriers to protect against bacteria and viruses in drinking water systems that use ground water. The proposed rule will apply to all U.S. public water systems that use ground water as a source. The proposed GWR includes system sanitary surveys conducted by the state to identify significant deficiencies; hydrogeologic sensitivity assessments for undisinfected systems; source water microbial monitoring by systems that do not disinfect and draw from hydrogeologically sensitive aquifers or have detected fecal indicators within a distribution system; corrective action; and compliance monitoring for systems which disinfect to ensure that they reliably achieve 4-log (99.99%) inactivation or removal of viruses. The GWR is scheduled to be issued as a final regulation during 2003. While no assurance can be given as to the nature and cost of any additional compliance measures, if any, SCW and CCWC do not believe that such regulations will impose significant compliance costs, since they already currently engage in disinfection of the majority of their groundwater systems.

Regulation of Radon and Arsenic

On October 31, 2001, EPA announced that the arsenic standard in drinking water would be 10 parts per billion (ppb). Compliance with an MCL of 10 ppb will require implementation of wellhead treatment remedies for eight affected wells in SCW's system and two wells in CCWC's system. The effective date for utilities to comply with the standard will be January 2006. In California, the Office of Environmental Health Hazard Assessment (OEHHA) issued a Public Health Goal for arsenic of 4 parts per trillion in March 2003 that may result in California adopting a lower MCL for arsenic.

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The EPA has proposed new radon regulations following a National Academy of Sciences risk assessment and study of risk-reduction benefits associated with various mitigation measures. The National Academy of Sciences study is in agreement with much of EPA's original findings but has slightly reduced the ingestion risk initially assumed by EPA. EPA established an MCL of 300 Pico Curies per liter based on the findings and has also established an alternative MCL of 4000 Pico Curies per liter, based upon potential mitigation measures for overall radon reduction. Registrant is currently waiting for the EPA to establish a MCL to determine the impact.

Voluntary Efforts to Provide Treated Surface Water Below Minimum Surface Water Treatment Requirements

SCW is a voluntary member of the EPA's Partnership for Safe Water, a national program designed to further protect the public from diseases caused by cryptosporidium and other microscopic organisms. As a volunteer in the program, SCW commits to treat surface water to levels much lower than the minimum operating requirements governing surface water treatment, optimize surface water treatment plant operations and seeks to have its surface water treatment facilities perform as efficiently as possible.

Unregulated Contaminants Monitoring Rule

EPA has revised the Unregulated Contaminant Monitoring Rule (UCMR). The data generated by the UCMR will be used to evaluate and prioritize contaminants on the Drinking Water Contaminant Candidate List, a list of contaminants EPA is considering for possible new drinking water standards. This data will help to ensure that future decisions on drinking water standards are based on sound science.

A tiered approach will be utilized with the three monitoring lists to provide the maximum capability to monitor up to the statutory limit of no more than 30 contaminants in any 5-year monitoring cycle. Therefore, as List 3 contaminants are found to occur in public water systems, they may move up to List 2, and likewise, List 2 contaminants may move up to List 1, in 2004, when the UCMR is revised again. The law requires that EPA publish a new contaminant-monitoring list every 5 years. When the EPA adds contaminants to their list, they will also include a compliance date. Registrant will evaluate the impact and necessary actions as additions are made to the contaminant lists.

Fluoridation of Water Supplies

SCW is required to fluoridate water supplies for public water systems serving more than 10,000 service connections if funds have been made available to cover capital and operating costs. The CPUC is required to authorize cost recovery through rates should funds for the operation of fluoridation facilities, once installed, become unavailable in future years. Currently, funds have been made available to public agencies only. SCW has not been offered any funding and has not installed any fluoridation facilities.

Perchlorate Action Level Activities

In January 2002, DOHS reduced the action level from 18 ppb to a level of 4 ppb, based upon new reference dose for health risk information from EPA. The Governor in California recently signed into law a bill requiring DOHS to establish a MCL for perchlorate by January 1, 2004. SCW has removed eight wells from service in its Rancho Cordova system and six additional wells in various other systems since they contained perchlorate in amounts in excess of this reduced action level of 4 ppb. On December 6, 2002, the OEHHA published a revised draft perchlorate Public Health Goal of 2 to 6 ppb. This is the first step in the establishment of an MCL in California. SCW is continuing to periodically monitor all of its wells to determine that levels of perchlorate are below the action level currently in effect. Perchlorate is known to be used in oxidizing rocket fuels.

Nitrosodimethylamine (NDMA) Action Level

In February 2002, DOHS increased the action level from 2 parts per trillion (ppt) to 10 ppt. NDMA is an additional by-product from the production and use of rocket fuels.

Matters Relating to SCW's Arden-Cordova Water System

In SCW's Rancho Cordova system, four wells have been removed from service and destroyed due to contamination from perchlorate. The supply has been replaced for three of these wells. An additional four wells are currently out of service due to perchlorate levels above the reduced action level of 4 ppb, and four wells are out of service due to detectable levels of NDMA. SCW continues to monitor all of its active groundwater wells in the Rancho Cordova system for perchlorate and NDMA level. Aerojet-General Corp. (Aerojet) has, in the past, used ammonium perchlorate in oxidizing rocket fuels. NDMA is an additional by-product from the production of rocket fuels and it is believed that such contamination is also related to the activities of Aerojet. SCW has filed suit against Aerojet for contamination of SCW's ground water supply in its Rancho Cordova system.

To date, Aerojet has reimbursed SCW for constructing a pipeline to interconnect with the City of Folsom water system to provide an alternative source of water supply in SCW's Rancho-Cordova customer service area and has reimbursed SCW for costs associated with the drilling and equipping of new wells. As of June 30, 2003, Aerojet had previously reimbursed SCW \$4.5 million of the approximately \$20 million in costs SCW has incurred. The remainder of the costs is subject to further reimbursement pending outcome of the litigation previously discussed. Reimbursements received from Aerojet have been applied directly to reduce SCW's costs of utility plant and purchased water. For further information regarding litigation related to contamination of ground water in Sacramento County, see the section entitled "*Other Water Quality Litigation*" included in Part II, Item 3, Legal Proceedings.

The EPA issued an order to Aerojet in August 2002 that requires Aerojet to ultimately restore the contaminated aquifer and minimize further loss of water supply wells, and requires Aerojet to provide an alternative water supply if more water supply wells are lost.

Matters Relating to SCW's Culver City Water System

The compound, methyl tertiary butyl ether (MTBE), an oxygenate used in reformulated fuels, has been detected in the Charnock Basin, located in the vicinity of the City of Santa Monica and within SCW's Culver City customer service area. At the request of the Regional Water Quality Control Board, the City of Santa Monica and the California Environmental Protection Agency, SCW removed two of its wells in the Culver City water system from service in October 1996 to help in efforts to avoid further spread of the MTBE contamination plume. Neither of these wells has been found to be contaminated with MTBE. SCW is purchasing water from the Metropolitan Water District of Southern California (MWD) at an increased cost to replace the water supply formerly pumped from the two wells removed from service.

On September 22, 1999, the U.S. EPA and the Los Angeles Regional Water Quality Control Board ordered Shell Oil Company, Shell Oil Products Company, Equilon Enterprises LLC and others to provide replacement drinking water to both SCW and the City of Santa Monica due to MTBE contamination in the Charnock Basin. The EPA has ordered Shell Oil and others to reimburse SCW for water replacement costs. In March 2002, SCW reached a settlement agreement with the City of Santa Monica, in which SCW assigned its rights against all the potentially responsible parties, who stored, transported and dispensed gasoline containing methyl tertiary butyl ether (MTBE) in underground storage tanks, pipelines or other related infrastructure, and its water rights in the Charnock Basin to the City of Santa Monica and Santa Monica took over the prosecution against the potentially responsible parties in exchange for an assignment payment. On May 8, 2003, the CPUC issued a decision approving the

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settlement agreement. Pursuant to the resolution, SCW has subsequently filed a report that sets forth specific details as to SCW's plans to reinvest the net proceeds from the settlement agreement with the City of Santa Monica.

Matters Relating to SCW's Yorba Linda Water System

The compound MTBE has been detected in three wells serving SCW's Yorba Linda water system. Two of the wells are standby wells and to date the third well has not shown MTBE above the DOHS secondary standard of 5.0 ppb. SCW has constructed an interconnection with the Metropolitan Water District of Southern California to provide for the needed supply for this system in the event the third well experiences levels of detection in excess of the DOHS standard.

SCW has met with the Regional Water Quality Control Board, the Orange County Water District, (OCWD), the City of Anaheim, the DOHS and three potentially responsible parties (PRP's) to define the extent of the MTBE contamination plume and assess the contribution from the PRP's. The PRP's have voluntarily initiated a work plan for regional investigation. While there have not been significant disruptions to the water supply in Yorba Linda at this point in time, no assurances can be given that MTBE contamination will not increase in the future. Negotiations with the PRPs on reimbursement of costs incurred to date and recovery of potential future costs associated with MTBE contamination continue.

Matters Relating to SCW's Los Osos Water System

The compound MTBE has been detected in a well serving SCW's Los Osos water system. For some time SCW has been working with the Regional Water Quality Control Board as well as the owner of a service station. Although the owner of the service station has attempted remediation with funds provided through the California Underground Storage Tank Fund ("CUSTF"), it appears there will be insufficient funds from the CUSTF to complete remediation sufficient to return the well to service. In order to prevent the running of the statute of limitations, on August 12, 2002 SCW filed suit in the Superior Court of the State of California for the County of San Luis Obispo against the operators and owners of the service station facility, and Chevron USA Products, Inc., the supplier. At this time, a settlement with Chevron has been tentatively reached on all claims. The impacted well may need to be removed permanently from service and the settlement with Chevron, being finalized at this time, will afford the Company with sufficient funds to commence siting and construction of a replacement well.

Matters Relating to SCW's San Gabriel Water Systems

Volatile Organic Compounds (VOC) and perchlorate have been detected in 2 wells servicing SCW's San Gabriel System. SCW filed suit, along with two other affected water purveyors and the San Gabriel Basin Water Quality Authority (WQA), in federal court against some of those responsible for the contamination. Some of the other potential defendants settled with SCW, other water purveyors and the WQA on VOC related issues prior to the filing of the lawsuit resulting in reimbursement to SCW of the \$1 million in capital cost of VOC treatment facilities and contribution of approximately \$380,000 towards future operating and maintenance (O&M) costs of the facilities.

In response to the filing of the Federal lawsuit, the Potentially Responsible Party (PRP) defendants filed motions to dismiss the suit or strike certain portions of the suit. Following a hearing on these motions on March 31, 2003, the judge issued a ruling on April 1, 2003 granting in part and denying in part the defendant's motions. A key ruling of the court was that the water purveyors, including the Registrant, by virtue of their ownership of wells contaminated with hazardous chemicals are themselves PRPs under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). Registrant has, pursuant to permission of the court, amended its suit to claim certain affirmative defenses as an "innocent" party under CERCLA. Registrant is presently unable to predict the outcome of this

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ruling on its ability to fully recover from the PRPs future costs associated with the treatment of these wells.

Three other wells serving customers in SCW's San Gabriel customer service area are also impacted by VOC contamination. A settlement with several potentially responsible parties together with federal funds administered by WQA resulted in reimbursement of 100% of the \$1.1 million in capital costs, \$205,000 of past operations and maintenance costs and 100% of future operations and maintenance costs for a period of up to 30 years for VOC treatment facilities at these wells.

Bark Beetle Infestation in SCW's Bear Valley Electric Service Area

In a Proclamation issued on March 7, 2003 Governor Gray Davis declared a State of Emergency with respect to a severe fire risk caused by dead and dying trees plagued by drought and a major bark beetle infestation in the counties of Riverside, San Bernardino, and San Diego of the State of California. The threat is continuing and shows no sign of abating. The CPUC issued on April 3, 2003 an order requiring Southern California Edison Company, San Diego Gas & Electric Company and Bear Valley Electric to take all reasonable and necessary actions to mitigate the increased fire hazard by removing dead, dying or diseased trees from falling or contacting distribution and transmission lines within their rights of way and to ensure compliance with existing vegetation clearance statutes and regulations. The utilities, including Bear Valley Electric, are authorized to make annual advice letter filings requesting recovery of the costs of removal and mitigation. SCW is currently in the process of assessing the impact of the emergency situation on its Bear Valley Electric Service division. While the Company is unable at this point to estimate the costs of complying with the emergency declaration, it is confident that those costs will be recoverable in rates as the order issued by the CPUC contained cost recovery provisions.

Security Issues

Since the tragic events of September 11, 2001, water utilities, including Registrant, have been advised to increase security at key facilities in order to avoid contamination of water supplies and other disruptions of service. In compliance with "*The Public Health Security and Bioterrorism Preparedness Act of 2002*" (HR 3448), Registrant has continued to implement measures to increase security, which includes a vulnerability assessment of its large systems. In addition to large system assessments, all systems operated by Registrant were assessed to identify potential areas requiring enhancements. These assessments resulted in a prioritized listing of recommended facility upgrades to enhance the safety of water system operations. Costs associated with capital improvements identified as a result of the assessment process, of approximately \$15 million, have been included in an application filed with the CPUC in October 2002.

Water Supply

SCW's Water Supply

For the three months ended June 30, 2003, SCW supplied a total of 21,362,000 ccf of water. Of this amount, approximately 53.5% came from pumped sources and 46.5% was purchased from others, principally the Metropolitan Water District of Southern California (MWD). SCW supplied 23,531,000 ccf of water for the same period of 2002, 54.9% of which came from pumped sources, 41.7% was purchased. The Bureau of Reclamation (the Bureau) supplied the remaining amount under a no-cost contract.

For the six months ended June 30, 2003, SCW supplied a total of 37,845,000 ccf of water 54.7% of which came from pumped sources, 45.3% was purchased. During the six months ended June 30, 2002, SCW produced 40,805,000 ccf of water. Of this amount 58% came from pumped sources, 40% was purchased and the remainder was provided by the Bureau.

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For the twelve months ended June 30, 2003, SCW supplied a total of 84,950,000 ccf of water. Of this amount, approximately 54.1% came from pumped sources and 45.6% was purchased from others. For the twelve months ended June 30, 2002, SCW supplied 86,486,000 ccf of water, 57% of which came from pumped sources, 40.7% was purchased, and the Bureau supplied the remainder.

The MWD is a water district organized under the laws of the State of California for the purpose of delivering imported water to areas within its jurisdiction. Registrant has 58 connections to the water distribution facilities of MWD and other municipal water agencies. MWD imports water from two principal sources: the Colorado River and the SWP. Available water supplies from the Colorado River and the SWP have historically been sufficient to meet most of MWD's requirements. However, California missed a federal deadline of December 31, 2002 to demonstrate how it will reduce the Colorado River water that it takes beyond its legal entitlement after negotiations on how to divide the water in Southern California broke down. The federal government began to cut Southern California's Colorado River supplies in January 2003. MWD has publicly stated that Southern California should have ample water supplies for 20 years despite this cut by stepping up a number of efforts including desalination, conservation, recycling, transfer and storage. In addition, efforts are under way to resolve the impasse that led to the reduction in Colorado River supplies to Southern California.

SCW's water supply and revenues are significantly affected, both in the short-run and the long run, by changes in meteorological conditions. The 2003 water year, October 2002 to September 2003, has been a significantly better water year than the 2002 water year. California experienced the third wettest April this year in the 80 years records have been kept. Precipitation has been above normal. The snow pack increased by 20% as opposed to the usual 15% decline. At the end of April almost all reservoirs were at or exceeded 100% of normal. Through June reservoir levels have dropped to 85% of normal overall but more than 60% of the reservoirs are over 100% of normal. The National Weather Service outlook for July through September is for normal levels of precipitation throughout California.

Although overall groundwater conditions remain at adequate levels, certain of SCW's groundwater supplies have been affected to varying degrees by various forms of contamination which, in some cases, has caused SCW to increase its reliance on purchased water in its supply mix. For further information, see Part II, Item 1 in Legal Proceedings.

A sudden and unexplained drop in groundwater water supply severely impacted SCW's Wrightwood customer service area in the third quarter of 2002. In response to this emergency situation, SCW undertook a number of steps to provide water service, including trucking water into the area from nearby sources, bringing a formerly shut down well into service, taking steps to increase capacity at existing wells and expediting the drilling and equipping of a new well. SCW experienced increased operating costs associated with the trucking of water of approximately \$1.4 million (approximately \$1.26 incurred in 2002 and \$166,000 in the first quarter of 2003). Due to the actions of SCW and conservation efforts of consumers, the situation has stabilized and the water hauling stopped at end of January 2003. Management is unable to predict the extent to which additional costs may be incurred or the extent to which additional problems may be encountered. The cause of the unexplained and sudden drop in groundwater supply has not been identified, but it may be drought-related.

CCWC's Water Supply

Arizona and the Colorado River area are having a poor water year with precipitation level around 50% and 75% of normal respectively. However, this is a marked improvement over 2002 when precipitation was almost nonexistent. Last year reservoirs were around 25% of normal levels while this year reservoirs are around 70% of normal levels. So far this year the Colorado River inflow into Lake Mead has been 54% of normal as compared to 25% for 2002.

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The Arizona Water Banking Authority (AWBA) was created to store Arizona's unused Colorado River water entitlement in western, central and southern Arizona to develop long-term storage credits to: (i) firm existing water supplies for municipal and industrial users during Colorado River shortages or Central Arizona Project (CAP) service interruptions; (ii) help meet the water management objectives of the Arizona Groundwater Code; and (iii) assist in the settlement of American Indian water rights claims. The AWBA successfully banked up to Arizona's full allocation of Colorado River entitlement in 2002, and expects the same result in 2003 as a hedge against drought conditions. Further, the first curtailment of CAP deliveries in the event of shortage would occur to non-Indian agricultural users. Such users accounted for 36% of CAP deliveries in 2002, creating a buffer for users such as CCWC. Though it is difficult to predict drought conditions with certainty, the activities of AWBA, and the priority for users of CAP, such as CCWC, provides an improved outlook for CCWC supplies.

CCWC obtains its water supply from three operating wells and from Colorado River water delivered by the CAP. The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdown, and to keep the well system in optimal operating condition.

CCWC has an Assured Water Supply designation, by decision and order of the Arizona Department of Water Resources, providing in part that, subject to its requirements, CCWC currently has a sufficient supply of ground water and CAP water which is physically, continuously and legally available to satisfy current and committed demands of its customers, plus at least two years of predicted demands, for 100 years. Notwithstanding such a designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can currently rely on its well water supplies for short-term periods. However, in any event, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs.

Risk Factor Summary

You should carefully read the risks described below and other information in this Form 10-Q in order to understand certain of the risks of our business.

Our liquidity and earnings could be adversely affected by increases in water supply costs

Prior to November 29, 2001, we recovered certain water supply costs through a balancing account mechanism. Water supply costs include the cost of purchased water and power and groundwater production assessments. Changes in the unit costs did not directly affect earnings. The balancing account was not, however, designed to insulate our earnings against changes in supply mix. As a result, we were not permitted to recover increased costs due to increased use of purchased water, which is generally more expensive than groundwater, through the balancing account mechanism. Increased cost of this nature were only recoverable, on a prospective basis, through the filing of a general rate case.

On November 29, 2001, the CPUC ordered us to suspend the use of the current water balancing account, and instead started a memorandum account for each offsettable expense of purchased water, purchased power and pump tax for our water service areas. Changes in water supply costs compared to the authorized amount, as well as any future authorized offset increases may directly affect our earnings. SCW's earnings were reduced by \$0.03, \$0.07 and \$0.22 per share, respectively, for the three, six and twelve months ended June 30, 2003 as a result of this change in the methodology for recovering water supply costs. In June 2003, we received the CPUC's authorization to increase our rates to recover the pre November 29, 2001 balance in our supply costs balancing account.

In a decision issued on June 19, 2003, the CPUC concluded that our recovery of deferred water supply costs for providing water service will be reduced if we are earning more than our authorized rate

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of return. We have up to September 19, 2003 to file the balances of supply costs memorandum accounts as of December 31, 2002 with the CPUC. Future recovery of the under-collected balances is subject to the earning tests and the CPUC's review of the reasonableness of the cost. For more information, see the section entitled "Accounting for Supply Costs" included in Part I, Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operation

Our liquidity, and in certain circumstances, earnings, could be adversely affected by increases in electricity prices in California

Under California law, we are permitted to file for a rate increase to recover electric power costs not being recovered in current rates. Increases in electric power costs generally have no direct impact on profit margins, unless recovery of these costs is disallowed, but do affect cash flows and can therefore impact the amount of our capital resources. Electric power costs increased substantially in California during the fall of 2000 until the summer of 2001. On July 17, 2002, the FERC extended and modified the mitigation measures that were set to expire on September 30, 2002, citing delays in construction of new generation resources in California and throughout the West, delays in adopting a new market design and market rules by the Cal ISO, transmission line constraints, constraints on natural gas pipeline capacity and continuing dysfunctions in the power market. It remains unclear how long the FERC will leave its mitigation measures in place. The premature termination of such mitigation measures could result in a substantial increase in spot market prices and the prices of long-term contracts for power and capacity. In addition, a number of market reforms are under consideration at FERC. Certain of these reforms, if adopted, could result in significantly increased electric supply reserve requirements that have the potential for further cost increases.

On July 17, 2002, the CPUC approved a settlement authorizing us to include \$0.077 per kilowatt-hour (KWh) in rates to recover electric power costs at our Bear Valley Electric operation. If our actual annual costs exceed this amount, we cannot recover the excess and the amount will be expensed against income. If our actual annual energy costs are less than \$0.077 per KWh, we can use this difference to collect amounts previously included in the balancing account. The CPUC also has authorized SCW to collect a surcharge from its customers of 2.2¢ per Kwh for a period of up to ten years to enable SCW to recover the under-collection in its balancing account arising out of the energy crisis. SCW anticipates that the 2.2¢ surcharge on its electricity sales during the ten year period will be sufficient to enable SCW to recover the amount of this under-collection, with interest, during this ten year period.

The purchased power agreements with PWCC enable SCW to purchase a contractual volume of power at \$74.65 per megawatt hour (MWh). SCW also buys additional energy from the spot market to meet peak demand and sell surplus power to the spot market from time to time. SCW should be able to recover these costs up to the annual recovery cap of \$77, unless the CPUC determines that the costs incurred by SCW for purchasing power are not reasonable. The CPUC has not yet reviewed the purchased power agreements with PWCC or SCW's spot market practices for reasonableness.

Significant claims have been asserted against us in water quality litigation

SCW and others have been sued in twenty-two water quality related lawsuits alleging personal injury and property damage as a result of the delivery of water that was allegedly contaminated. Nineteen of the lawsuits involve plaintiffs who received water from two groundwater basins in Los Angeles County. The other lawsuits involve plaintiffs in Sacramento County.

In March 1998, the CPUC issued an Order Instituting Investigation as a result of water quality lawsuits being filed against water utilities in California. On November 2, 2000, the CPUC issued a final order concluding that (i) the CPUC has jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; (ii) DOHS requirements governing drinking water quality adequately

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protect the public health and safety; and (iii) regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements.

On February 5, 2002, the California Supreme Court ruled that water utilities regulated by the CPUC may only be sued for damages based on allegations and ultimate proof that the utility failed to comply with federal and state safe drinking water requirements. As a result, plaintiffs may proceed on their claims against SCW to the extent that these claims are based on violations of federal and state law.

Persons that are potentially responsible for causing the contamination of groundwater supplies have also been increasingly asserting claims against water distributors on a variety of theories and have thus far successfully brought them within the class of potentially responsible parties thereby increasing the costs of seeking recovery from the potentially responsible parties and the risks associated with seeking recovery of these costs.

Our operating costs have increased and are expected to continue to increase as a result of groundwater contamination

SCW's operations have been impacted by groundwater contamination in certain of its service territories. We have taken a number of steps to address this contamination, including the removal of wells from service, the construction of water treatment facilities and securing alternative sources of supply from other areas not affected by the contamination.

In some cases, potentially responsible parties have reimbursed us for our costs. In other cases, we have taken legal action against parties that we believe to be potentially responsible for the contamination. To date, the CPUC has also permitted SCW to establish memorandum accounts for recovery of these types of costs, but actual recovery of these costs from ratepayers has been limited to filing only with a General Rate Case, generally every 3 years.

Environmental regulation has increased, and is expected to continue to increase our operating costs

SCW and CCWC are subject to increasingly stringent environmental regulations that will result in increasing capital and operating costs. These regulations include:

- The 1996 amendments to the Safe Drinking Water Act that require increased testing and treatment of water to reduce specified contaminants to maximum contaminant levels
- Approved regulations requiring increased surface-water treatment to decrease the risk of microbial contamination; these regulations affect SCW's five surface water treatment plants and two CCWC plants
- Additional regulation of disinfection/disinfection byproducts
- Additional regulations requiring disinfection of certain groundwater systems
- Regulation of arsenic and radon
- Changes in the action level and the proposed adoption of maximum contamination levels for perchlorate and other by products of the production of rocket fuel

SCW and CCWC may be able to recover costs incurred to comply with these regulations through the ratemaking process. We may also be able to recover certain of these costs under our contractual arrangements with municipalities. In certain circumstances, we may be able to recover costs from parties responsible or potentially responsible for contamination, either voluntarily or through specific court action.

The adequacy of our water supplies depends upon a variety of factors beyond our control

The adequacy of our water supplies varies from year to year depending upon a variety of factors, including:

- Rainfall
- Availability of Colorado River water
- The amount of water stored in reservoirs and groundwater basins
- The amount of water used by our customers and others
- Water quality
- Legal limitations on use

Population growth and increases in the amount of water used have increased limitations on use to prevent over-drafting of groundwater basins. The import of water from the Colorado River, one of SCW's important sources of supply, is expected to decrease in future years due to the requirements of the Central Arizona Project ("CAP") and disputes affecting the amount of water that the Metropolitan Water District of Southern California is entitled to take from the Colorado River. We have also taken wells out of service due to groundwater contamination.

CCWC obtains its water supply from operating wells and from the Colorado River through the CAP. CCWC's water supply may be subject to interruption or reduction if there is an interruption or reduction in CAP water.

Water shortages may affect us in a variety of ways:

- They adversely affect supply mix by causing us to rely on more expensive purchased water.
- They adversely affect operating costs.
- They may result in an increase in capital expenditures for building pipelines to connect to alternative sources of supplies and reservoirs and other facilities to conserve or reclaim water.

We may be able to recover increased operating and construction costs for our regulated systems through the ratemaking process. We may also be able to recover certain of these costs from third parties that may be responsible, or potentially responsible, for groundwater contamination.

Our earnings are greatly affected by weather during different seasons

The demand for water and electricity varies by season. Therefore, the results of operations for one period may not indicate results to be expected in another period. For instance, most water consumption occurs during the third quarter of each year when weather tends to be hot and dry. On warm days, use of water by residential and commercial customers may be significantly greater than on cold days because of the increased use of water for outdoor landscaping. Likewise the demand for electricity in our Big Bear service area is greatly affected by winter snows. An increase in winter snows reduces the use of snow making machines at ski resorts in the Big Bear area and, as a result reduces electric revenues. Likewise, unseasonably warm weather during a skiing season may result in temperatures too high for snowmaking conditions also reducing electric revenues.

Variability of weather from normal temperatures or changes in snow or rainfall can materially impact results of operations. As a result, weather has been and will continue to be one of the dominant factors in our financial performance.

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Our business is heavily regulated and, as a result, decisions by regulatory agencies and changes in laws and regulations can significantly affect our business

Our revenues depend substantially on the rates that we are permitted to charge our customers and our ability to recover our costs in these rates, including the ability to recover the costs of purchased water, groundwater assessments and electric power costs in rates. We have filed for increased water rates to recover operating costs from customers in Region III as well as from all customers for costs associated with general office activities. We also filed Notices of Intent to increase rates in Region I and Region II. In addition, we will be seeking CPUC authorization to recover in rates for constructing an 8.4 MW natural gas-fueled generator facility to meet increasing demand in our Bear Valley customer service area.

The CPUC's resolution ordering SCW to suspend the use of the current water balancing account, and instead to start a memorandum account for its supply costs has and will directly impact our earnings since the recovery of deferred water supply costs is reduced if we are earning an amount in excess of our authorized rate of return. We have also been adversely affected by electric restructuring in California and the limitations that have been placed on our ability to recover these costs in rates.

Our costs have increased as a result of increasing environmental regulation, requirements to increase security at our water facilities and requirements to mitigate fire hazard risks in our Bear Valley Electric service area arising out of the drought and a major bark beetle infestation.

Our business requires significant capital expenditures

The utility business is capital intensive. On an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. During calendar years 2002, 2001 and 2000, we spent \$40,655,000, \$47,570,000, and \$46,091,000, respectively, for these purposes. Our budgeted capital expenditures for calendar year 2003 for these purposes are approximately \$84,637,000. There is no capital expenditure for environmental control facilities budgeted for 2003.

We obtain funds for these capital projects from operations, contributions by developers and others and advances from developers (which must be repaid). We also periodically borrow money or issue equity for these purposes. In addition, we secured a syndicated bank facility that we can use for these purposes. We cannot assure you that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to earn a reasonable rate of return.

New Accounting Pronouncements

We are subject to newly issued as well as changes in existing requirements issued by the Financial Accounting Standard Board. Differences in financial reporting between periods could occur unless and until the CPUC and the ACC approve such changes for conformity through regulatory proceedings. See *Note 5* of Notes to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Registrant has certain block-forward purchase power contracts that qualify as derivative instruments under Statement of Financial Account Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities." A derivative financial instrument or other contract derives its value from another investment or designated benchmark. SCW is a party to various block-forward purchase power contracts. Power purchase contracts with Mirant and PWCC executed in 2001 qualify for the exception provided under SFAS No. 133 for activities that are considered normal purchases and normal sales. These contracts are reflected in the statements of income at the time of contract settlement. Contracts with PWCC executed in September 2002, however, do not qualify for the normal purchases and normal sales exception and, as a result, have been recognized at fair market value

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on the balance sheet as of June 30, 2003. This resulted in a pre-tax unrealized loss of \$2.5 million in 2002, and a gain of \$1.6 and \$1.3 million, respectively, for the three and six months ended June 30, 2003 recorded as a component of Power Purchased for Resale. On a quarterly basis, the related asset or liability will be adjusted to reflect the fair market value at the end of each quarter. As this contract is settled, the realized gains or losses will be recorded and the unrealized gain or loss will be reversed.

Under the terms of its power purchase contracts with Mirant and PWCC, SCW is required to post security, at the request of the seller, if SCW is in default under the terms of the applicable contract. In addition, SCW's liquidity, and in certain circumstances, earnings could be adversely affected by increases in electricity prices in California. For further information, see the section entitled "*Critical Accounting Policies*" and "*Electric Energy Situation in California*" included in Part I, Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Except as discussed above, Registrant has no other derivative financial instruments, financial instruments with significant off-balance sheet risks or financial instruments with concentrations of credit risk.

Item 4. Disclosure Controls and Procedures

Registrant has established disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Within ninety days prior to the filing of this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. There has been no change in Registrant's internal controls during the quarter that has had a material affect or is likely to have a material affect on Registrant's internal controls over financial reporting other than the weakness described in "*Controls and Procedures*" included in Part III, Item 14 of Registrant's Form 10K filed for the year ended December 31, 2002, which we are in the process of correcting including acquiring appropriate tax software. We have completed some corrective action and have added the qualified staff needed.

PART II

Item 1. Legal Proceedings

Water Quality-Related Litigation

SCW is a defendant in twenty-two lawsuits involving claims pertaining to water quality. Nineteen of the lawsuits involve customer service areas located in Los Angeles County that have been filed in Los Angeles Superior Court: Robert Arenas, et al. v. Suburban Water Systems, Inc., et al., Case No. KC037559, Anthony John Bell, et al. v. City of Pomona, et al., Case No. KC038796, Adler, et al. v. Southern California Water Company, et al., Case No. BC169892, Santamaria, et al. v. Suburban Water Systems, et al., Case No. KC025995, Georgianna Dominguez et al. v. Southern California Water Company, et al., Case No. GC021657, Anderson, et al. v. Suburban Water Company, et al., Case No. KC028524, Abarca, et al. v. City of Pomona, et al., Case No. K027795, Celi, et al. v. San Gabriel Valley Water Company, Case No. GC020622, Boswell et al. v. Suburban Water Systems, et al., Case No. KC027318, Demciuc et al. v. Suburban Water Systems, et al., Case No. KC028732, Antoinette Adejare, et al. v. City of Pomona, et al., Case No. KC031096, Almelia Brooks, et al. v. Suburban Water System, et al., Case No. KC032915, Lori Alexander, et al. v. Suburban Water Systems, et al., Case No. KC031130, David Arnold, et al. v. City of Pomona, et al., Case No. KC034636, Gilda Ambrose-Dubre, et al. v. City of Pomona, et al., Case No. KC032906, Melissa Garrity Alvarado, et al. v. Suburban Water Systems et

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al., Case No. KC034953, Charles Alexander, et al. v. City of Pomona, et al., Case No KC035526, Criner, et al. v. San Gabriel Valley Water Company, et al., Case No. GC021658, and Donerson, et al. v. City of Pomona, et al., Case No. KC035987. The lawsuits filed in Los Angeles County Superior Court are based on the allegations that SCW and the other defendants have provided and continue to provide plaintiffs with contaminated water from its wells, several of which are located in an area of the San Gabriel Valley that has been designated a federal superfund site, that the maintenance of this contaminated well water has resulted in contamination of the soil, subsurface soil and surrounding air with solvents and other substances, and that plaintiffs have been injured and their property damaged as a result. Three of the lawsuits involve a customer service area located in Sacramento County that have been filed in Sacramento County Superior Court: Nathaniel Allen, Jr. v. Aerojet-General Corporation, et al., Case No. 97AS06295, Daphne Adams, et al. v. Aerojet-General Corporation, et al., Case No. 98AS01025, and Wallace Andrew Pennington et al. v. Aerojet-General Corporation, et al., Case No. 00AS02622. The lawsuits filed in Sacramento County Superior Court are based on the allegations that SCW and other defendants have delivered water to plaintiffs that are contaminated with a number of chemicals, including trichloroethylene, perchloroethylene, carbon tetrachloride, perchlorate, Freon-113, hexavalent chromium and other unnamed chemicals and that plaintiffs have been injured and their property damaged as a result.

On September 1, 1999, the Court of Appeals in San Francisco held that the CPUC had preemptive jurisdiction over regulated public utilities with respect to water quality matters and ordered dismissal of a series of these lawsuits. On October 11, 1999, one group of plaintiffs appealed this decision to the California Supreme Court. On February 4, 2002, the California Supreme Court concluded that (i) the CPUC had preemptive jurisdiction over claims seeking injunctive relief and claims based on the theory that a public utility regulated by the CPUC provided unsafe drinking water even though it had complied with federal and state drinking water standards, but (ii) the CPUC did not have preemptive jurisdiction over damage claims based on allegations of violations of federal and state drinking water standards by public utilities regulated by the CPUC. As a result, damage claims based on allegations of violations of federal and state drinking water standards may proceed while the other claims must be dismissed.

In light of the breadth of plaintiff's claims, the lack of factual information regarding plaintiffs' claims and injuries, if any, the impact of the California Supreme Court decision on plaintiffs' claims and the fact that investigation is presently underway, SCW is unable at this time to determine what, if any, potential liability it may have with respect to these claims. Based upon the information currently available to it, Registrant believes that these claims are without merit and intends to vigorously defend against these claims.

SCW is subject to self-insured retention provisions in its applicable insurance policies and has either expensed the self-insured amounts or has reserved against payment of these amounts as appropriate. SCW's various insurance carriers have, to date, provided reimbursement for costs incurred above the self-insured amounts for defense against these lawsuits, subject to a reservation of rights.

Order Instituting Investigation (OII)

In March 1998, the CPUC issued an OII to regulated water utilities in the state of California, including SCW. The purpose of the OII was to determine whether existing standards and policies regarding drinking water quality adequately protect the public health and whether those standards and policies were being uniformly complied with by those water utilities. On November 2, 2000, a final decision from the CPUC concluded that the CPUC has the jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; that the California Department of Health Services requirements governing drinking water quality adequately protect the public health and safety; and that, based on an extensive review of 25 years of water quality records, regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements, except for one small unrelated water utility in Northern California.

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The CPUC had previously authorized establishment of memorandum accounts to capture expenses related to the OII. Under the memorandum account procedure, SCW may recover litigation costs from ratepayers to the extent authorized by the CPUC. As of June 30, 2003, SCW had incurred a net cost of \$890,000 related to the OII, for which a reserve of the same amount was established. SCW filed for recovery of these amounts, through a special condition surcharge, with the CPUC in its application filing for its Region III and general office functions. See the section entitled “*Regulatory Matters*” in Part I, Item 2 in Management’s Discussion and Analysis of Financial Conditions and Results of Operation.

Other Water Quality Litigation

On October 25, 1999, SCW filed a lawsuit against the State of California and its State Water Resources Control Board, Central Valley Regional Water Quality Control Board, and Department of Toxic Substances Control (collectively, the State) alleging that the State had substantially participated in a project to inject chemical pollution into portions of the Sacramento County groundwater basin and that pollution is progressively destroying the groundwater supply in SCW’s Rancho Cordova water system. SCW and the State have entered into a comprehensive \$2,475,000 settlement of all of SCW’s claims against the State, of which we received \$2,397,000 on July 3, 2003 with the remaining balance to be received in the third quarter of 2003.

In a separate case, also filed on October 25, 1999, SCW sued Aerojet-General Corporation (Aerojet) for causing the contamination of eastern portions of the Sacramento County groundwater basin. A cross complaint filed by Aerojet against SCW for negligence and constituting a public nuisance was dismissed by the court in October 2002.

The CPUC has authorized memorandum accounts to allow for recovery, from customers, of costs incurred by SCW in prosecuting the suits filed against the State and Aerojet, less any recovery from the defendants or others. As of June 30, 2003, approximately \$15.3 million in legal and other related costs has been recorded as Other Deferred Charges.

The CPUC has authorized SCW to increase rates, effective April 28, 2001, for recovery over a six-year period of approximately \$1.8 million, in expenses that were incurred on or before August 31, 2000, in the Aerojet matter. The remaining costs were included in SCW’s January 31, 2003 filing with the CPUC of its Notice of Intent to increase rates in Region I. Management believes these costs are recoverable based on past practices of the CPUC but cannot give assurance that the CPUC will ultimately allow recovery of all or any of the remaining costs through rates.

The compound MTBE has been detected in a well serving SCW’s Los Osos water system. For some time SCW has been working with the Regional Water Quality Control Board as well as the owner of a service station. Although the owner of the service station has attempted remediation with funds provided through the California Underground Storage Tank Fund (“CUSTF”), it appears there will be insufficient funds from the CUSTF to complete remediation sufficient to return the well to service. In order to prevent the running of the statute of limitations, on August 12, 2002 SCW filed suit in the Superior Court of the State of California for the County of San Luis Obispo against the operators and owners of the service station facility, and Chevron USA Products, Inc., the supplier. At this time, a settlement with Chevron has been tentatively reached on all claims. The impacted well may need to be removed permanently from service and the settlement with Chevron, being finalized at this time, will afford the Company with sufficient funds to commence siting and construction of a replacement well.

Volatile Organic Compounds (VOC) and perchlorate have been detected in two wells servicing SCW’s San Gabriel System. SCW filed suit, along with two other affected water purveyors and the San Gabriel Basin Water Quality Authority (WQA), in the federal court against some of those responsible for the contamination. Some of the other potential defendants settled with SCW, other water purveyors and the WQA on VOC related issues prior to the filing of the lawsuit. In response to the filing of the Federal

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lawsuit, the Potentially Responsible Party (PRP) defendants filed motions to dismiss the suit or strike certain portions of the suit. The judge issued a ruling on April 1, 2003 granting in part and denying in part the defendant's motions. A key ruling of the court was that the water purveyors, including the Registrant, by virtue of their ownership of wells contaminated with hazardous chemicals are themselves PRPs under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). Registrant has, pursuant to permission of the court, amended its suit to claim certain affirmative defenses as an "innocent" party under CERCLA. Registrant is presently unable to predict the outcome of this ruling on its ability to fully recover from the PRPs future costs associated with the treatment of these wells.

Electric Service Litigation

SCW has been, in conjunction with the Southern California Edison (Edison) unit of Edison International, planning to upgrade transmission facilities to 115kv (the 115kv Project) in order to meet increased energy and demand requirements for SCW's Bear Valley Electric Service area. On December 27, 2000, SCW filed a lawsuit against Edison for declaratory relief and seeking damages for breach of contract as a result of delays in the 115kv Project, violations of good faith and fair dealing, negligent misrepresentation, intentional misrepresentation and unjust enrichment. Subsequently Edison filed a cross-complaint against SCW for breach of contract, anticipatory breach, and quantum meruit. SCW has also sought declaratory relief from Edison's claims. To date, SCW has spent approximately \$2.4 million in this matter, all of which has been expensed. A date of September 30, 2003 has been set for mediation in this matter.

Other Litigation

Registrant is also subject to ordinary routine litigation incidental to its business. Other than as disclosed above, no other legal proceedings are pending, which are believed to be material.

Item 2. Changes in Securities

As of June 30, 2003, earned surplus amounted to \$85,518,000.

Neither AWR nor ASUS is subject to any contractual restriction on its ability to pay dividends. SCW's maximum ability to pay dividends is restricted by certain Note Agreements. Approximately \$155.8 million was available to pay dividends, after giving effect to these restrictions, at June 30, 2003.

AWR's ability to pay dividends on its Common Shares is dependent upon the payment of dividends from SCW. The ability of AWR, ASUS and SCW to pay dividends is also restricted by California law. A California corporation may generally pay a dividend to its shareholders if (i) the amount of its retained earnings immediately prior to the payment of the dividend equals or exceeds the amount of the dividend, or (ii) the sum of its assets (exclusive of goodwill, capitalized research and development expenses and deferred charges) would be at least equal to 1-1/4 times its liabilities (not including deferred taxes, deferred income and other deferred credits).

CCWC is subject to contractual restrictions on its ability to pay dividends. CCWC's maximum ability to distribute dividends is limited to maintenance of no more than 55% debt in the capital structure for the quarter immediately preceding the distribution. The ability of CCWC to pay dividends is also restricted by Arizona law. Approximately \$4 million was available to pay dividends from CCWC to AWR at June 30, 2003.

There are 709,379 and 63,906 Common Shares authorized but unissued under the Dividend Reinvestment and Stock Purchase Plan (DRP) and the 401(k) Plan, respectively, at June 30, 2003. Shares reserved for the 401(k) Plan are in relation to Company matching contributions and for investment

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purposes by participants. During the first quarter of 2003, 12,649 common shares were issued pursuant to the terms of the DRP and the 401(k) Plans.

Under Registrant's 2000 Stock Incentive Plan, stock options representing a total of 405,145 Common Shares upon exercise have been granted to certain eligible employees. An additional 1,050 shares are subject to grants of restricted stock.

AWR implemented a three-for-two split of AWR's common shares payable on June 7, 2002 to holders of record on May 15, 2002. Fractional shares were paid in cash. As a result of the stock split, the total number of Common Shares outstanding increased from approximately 10.1 million to 15.1 million.

On April 5, 2002, AWR redeemed the 4% and 4% series of \$25 Preferred Shares at the redemption price \$27.00 and \$26.50 per share, respectively, plus accrued and unpaid dividends to the redemption date. Subsequently on April 19, 2002, the 5% Series was redeemed at \$25.25 per share plus accrued and unpaid dividends to the redemption date.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

On or about April 15, 2003, common and preferred shareholders of AWR were mailed a Notice of Annual Meeting and a Proxy Statement. Shareholders were requested to vote their shares for the election of a slate of three Class I directors to serve for a two-year term expiring at the end of the Annual Meeting of Shareholders in 2005, or until their successors are elected and qualified. Shareholders were also requested to: approve amendments to Registrant's 2000 Stock Incentive Plan; approve an increase in authorized New Preferred Shares; approve an increase in the voting rights of the Common Shares to one vote per share; approve deletion of certain restrictions on Registrant's ability to pay dividends on Common Shares; approve elimination of all references to stated value in Registrant's Articles of Incorporation; ratify the appointment of PricewaterhouseCoopers, LLP as the independent auditors; and to transact any other business, which may properly come before the meeting or any adjournment thereof.

The following table presents the voting results of the election Class I Directors at the Annual Meeting of Shareholders (the Meeting) held on May 20, 2003:

<u>Name</u>	<u>"Votes For"</u>	<u>"Votes Withheld"</u>
James L. Anderson	12,632,871	358,516
Anne M. Holloway	12,637,035	354,351
Floyd E. Wicks	12,635,958	355,428

Registrant has two classes of Directors. Class II Directors, who will hold office until 2004, are Jean E. Auer, N.P. Dodge Jr., Robert F. Kathol and Lloyd E. Ross.

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The results of the voting for all the other proposals at the Meeting are presented in the table below. All of the items have been approved except for the request to increase authorized new preferred shares.

Proposals	For	Against	Abstain	Broker Non-Votes
(1) Amendments to the Company's 2000 Stock Incentive Plan	77.80%	6.31%	1.47%	0.00%
(2) An increase in authorized New Preferred Shares	27.82%	30.03%	1.08%	26.65%
(3) An increase in the voting rights of the Common Shares to one vote per share	84.15%	0.87%	0.56%	0.00%
(4) Deletion of certain restrictions on the Company's ability to pay dividends on Common Shares	83.67%	1.05%	0.86%	0.00%
(5) Elimination of all references to stated value in the Company's Articles of Incorporation	82.69%	1.57%	1.32%	0.00%
(6) Ratify the appointment of PricewaterhouseCoopers, LLP as the independent auditors	84.40%	0.60%	0.58%	0.00%

Item 5. Other Information

On July 28, 2003, the Board of Directors of Registrant declared a regular quarterly dividend of \$0.221 per common share. The dividend will be paid September 1, 2003 to shareholders of record as of the close of business on August 8, 2003.

Item 6. Exhibits and Reports on Form 8-K

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

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Registrant furnished a Form 8-K to the Securities and Exchange Commission on May 13, 2003 announcing its earnings release for the three and twelve months ended March 31, 2003. On July 29, 2003, Registrant also furnished a Form 8-K to the Securities and Exchange Commission announcing its earnings release for the three and twelve months ended June 30, 2003, and its quarterly dividend payment.

SIGNATURE

Pursuant to the requirements of 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
and its subsidiary
SOUTHERN CALIFORNIA WATER COMPANY

By: /s/ McClellan Harris III

McClellan Harris III
Senior Vice President-Finance, Chief Financial Officer,
Treasurer and Corporate Secretary

Dated: August 14, 2003

Exhibit 31.1

***Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)***

I, Floyd E. Wicks, Chief Executive Officer, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2003 of American States Water Company and of Southern California Water Company (both referred to as “the Registrant”);
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- 4) The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting.
- 5) The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of Registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal controls over financial reporting.

Dated: August 14, 2003

By: /s/ FLOYD E. WICKS

Floyd E. Wicks
Chief Executive Officer

Exhibit 31.2

***Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)***

I, McClellan Harris III, Chief Financial Officer, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2003 of American States Water Company and of Southern California Water Company (both referred to as “the Registrant”);
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- 4) The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting.
- 5) The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of Registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal controls over financial reporting.

Dated: August 14, 2003

By: /s/ McCLELLAN HARRIS III

McClellan Harris III
Chief Financial Officer, Senior Vice
President-Finance, and Corporate Secretary

Exhibit 32.1

***Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)***

I, Floyd E. Wicks, Chief Executive Officer of American States Water Company and Southern California Water Company (the “Registrant”), do hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that, to my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Registrant for the quarter ended June 30, 2003, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Registrant.

/s/ Floyd E. Wicks

Floyd E. Wicks
Chief Executive Officer

Date: August 14, 2003

Exhibit 32.2

***Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)***

I, McClellan Harris III, Chief Financial Officer of American States Water Company and Southern California Water Company (the “Registrant”), do hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that, to my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Registrant for the quarter ended June 30, 2003, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Registrant.

/s/ McClellan Harris III

McClellan Harris III
Chief Financial Officer

Date: August 14, 2003