

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1998

COMMISSION FILE NO.	REGISTRANT AND STATE OF INCORPORATION ADDRESS AND TELEPHONE NUMBER	IRS EMPLOYER IDENTIFICATION NO.
333-47647	American States Water Company (A California Corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	05-4676679
000-01121	Southern California Water Company (A California Corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	95-1243678

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of November 3, 1998, the number of Common Shares outstanding, No Par Value with Stated Value of \$2.50, of American States Water Company was 8,957,671, all of which are listed on the New York Stock Exchange.

As of November 3, 1998, all of the 100 outstanding Common Shares of Southern California Water Company are owned by American States Water Company.

AMERICAN STATES WATER COMPANY
AND
SOUTHERN CALIFORNIA WATER COMPANY

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AMERICAN STATES WATER COMPANY
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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 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

	SEPT. 30, 1998	DECEMBER 31, 1997
	-----	-----
	(Unaudited)	
	(in thousands)	
	-----	-----
UTILITY PLANT, at cost		
Water.....	\$466,789	\$446,605
Electric.....	34,380	34,137
	-----	-----
Less - Accumulated depreciation.....	501,169 (135,980)	480,742 (125,020)
	-----	-----
Construction work in progress.....	365,189 40,559	355,722 27,901
	-----	-----
	405,748	383,623
	-----	-----
OTHER PROPERTY AND INVESTMENTS.....	1,602	1,355
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents.....	284	4,186
Accounts receivable - Customers, less reserves of \$320 in 1998 and \$466 in 1997.....	10,248	8,544
Other.....	5,304	3,614
Unbilled revenue.....	11,838	9,106
Materials and supplies, at average cost.....	1,257	1,299
Supply cost balancing accounts.....	5,384	4,286
Prepayments and other.....	4,266	7,676
Accumulated deferred income taxes - net.....	5,072	5,783
	-----	-----
	43,653	44,494
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets.....	21,469	22,337
Other deferred charges.....	6,299	5,265
	-----	-----
	27,768	27,602
	-----	-----
	\$478,771	\$457,074
	=====	=====

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
CAPITALIZATION AND LIABILITIES

	SEPT. 30, 1998	DECEMBER 31, 1997
	-----	-----
	(Unaudited)	
	(in thousands)	
CAPITALIZATION		
Common shareholders' equity.....	\$153,504	\$151,053
Preferred shares.....	1,600	1,600
Preferred shares subject to mandatory redemption requirements.....	440	440
Long-term debt.....	130,803	115,286
	-----	-----
	286,347	268,379
	-----	-----
CURRENT LIABILITIES		
Notes payable to banks.....	19,000	26,000
Long-term debt and preferred shares due within one year.....	255	231
Accounts payable.....	11,623	11,770
Taxes payable.....	10,173	9,115
Accrued interest.....	2,680	1,868
Other accrued liabilities.....	7,653	7,196
	-----	-----
	51,384	56,180
	-----	-----
OTHER CREDITS		
Advances for construction.....	54,278	55,574
Contributions in aid of construction.....	36,153	28,467
Accumulated deferred income taxes - net.....	44,953	42,984
Unamortized investment tax credits.....	3,179	3,246
Regulatory tax-related liability.....	1,917	1,950
Other.....	560	294
	-----	-----
	141,040	132,515
	-----	-----
	\$478,771	\$457,074
	=====	=====

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 1998 AND 1997
(UNAUDITED)

	THREE MONTHS ENDED SEPT. 30,	
	1998	1997
	(in thousands, except per share amounts)	
OPERATING REVENUES		
Water.....	\$43,813	\$42,494
Electric.....	3,189	3,206
	-----	-----
	47,002	45,700
	-----	-----
OPERATING EXPENSES		
Water purchased.....	11,104	13,300
Power purchased for pumping.....	2,280	2,446
Power purchased for resale.....	1,320	1,357
Groundwater production assessment.....	1,934	1,800
Supply cost balancing accounts.....	182	160
Other operating expenses.....	3,840	2,896
Administrative and general expenses.....	5,151	5,458
Depreciation.....	3,639	2,739
Maintenance.....	1,770	1,651
Taxes on income.....	4,740	3,912
Other taxes.....	1,610	1,596
	-----	-----
	37,570	37,315
	-----	-----
Operating income.....	9,432	8,385
OTHER INCOME/(LOSS).....	(209)	197
	-----	-----
Income before interest charges.....	9,223	8,582
INTEREST CHARGES.....	2,849	2,538
	-----	-----
NET INCOME.....	6,374	6,044
DIVIDENDS ON PREFERRED SHARES.....	(23)	(23)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS.....	\$6,351	\$6,021
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING.....	8,958	8,958
	=====	=====
Basic Earnings Per Common Share.....	\$0.71	\$0.67
	=====	=====
Dividends Declared Per Common Share.....	\$0.315	\$0.310
	=====	=====

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 1998 AND 1997
(UNAUDITED)

	NINE MONTHS ENDED SEPT. 30,	
	1998	1997
	(in thousands, except per share amounts)	
<hr/>		
OPERATING REVENUES		
Water.....	\$102,127	\$107,976
Electric.....	9,831	9,273
	<hr/>	
	111,958	117,249
<hr/>		
OPERATING EXPENSES		
Water purchased.....	24,529	30,897
Power purchased for pumping.....	4,904	5,452
Power purchased for resale.....	3,764	3,651
Groundwater production assessment.....	5,542	5,382
Supply cost balancing accounts.....	(1,055)	2,841
Other operating expenses.....	10,866	9,698
Administrative and general expenses.....	15,897	16,238
Depreciation.....	9,588	8,217
Maintenance.....	5,432	5,448
Taxes on income.....	8,484	7,215
Other taxes.....	4,607	4,714
	<hr/>	
	92,558	99,753
<hr/>		
Operating income.....	19,400	17,496
OTHER INCOME/(LOSS).....	(78)	457
	<hr/>	
Income before interest charges.....	19,322	17,953
INTEREST CHARGES.....	8,338	7,516
	<hr/>	
NET INCOME.....	10,984	10,437
DIVIDENDS ON PREFERRED SHARES.....	(68)	(69)
	<hr/>	
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS.....	\$10,916	\$10,368
	<hr/>	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING.....	8,958	8,957
	<hr/>	
Basic Earnings Per Common Share.....	\$1.220	\$1.160
	<hr/>	
Dividends Declared Per Common Share.....	\$0.945	\$0.930
	<hr/>	

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE TWELVE MONTHS
ENDED SEPTEMBER 30, 1998 AND 1997
(UNAUDITED)

	TWELVE MONTHS ENDED SEPT. 30,	
	1998	1997
	(in thousands, except per share amounts)	
OPERATING REVENUES		
Water.....	\$135,138	\$141,108
Electric.....	13,325	12,163
	-----	-----
	148,463	153,271
	-----	-----
OPERATING EXPENSES		
Water purchased.....	31,949	39,966
Power purchased for pumping.....	7,006	7,632
Power purchased for resale.....	5,302	5,525
Groundwater production assessment.....	7,007	6,796
Supply cost balancing accounts.....	(1,083)	2,289
Other operating expenses.....	14,218	13,018
Administrative and general expenses.....	21,819	22,191
Depreciation.....	12,323	10,743
Maintenance.....	7,286	8,226
Taxes on income.....	11,098	8,728
Other taxes.....	6,175	6,363
	-----	-----
	123,100	131,477
	-----	-----
Operating income.....	25,363	21,794
	-----	-----
OTHER INCOME.....	223	675
	-----	-----
Income before interest charges.....	25,586	22,469
INTEREST CHARGES.....	10,979	10,220
	-----	-----
NET INCOME.....	14,607	12,249
DIVIDENDS ON PREFERRED SHARES.....	(91)	(92)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS.....	\$14,516	\$12,157
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING.....	8,958	8,720
	=====	=====
Basic Earnings Per Common Share.....	\$1.62	\$1.39
	=====	=====
Dividends Declared Per Common Share.....	\$1.260	\$1.240
	=====	=====

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997
(UNAUDITED)

	NINE MONTHS ENDED SEPT. 30,	
	1998	1997
	(in thousands)	
CASH FLOWS FROM -		
Operating Activities:		
Net income.....	\$10,985	\$10,437
Adjustments for non-cash items:		
Depreciation and		
Depreciation and amortization.....	9,926	8,535
Deferred income taxes and		
investment tax credits.....	3,447	800
Other - net.....	3,408	(881)
Changes in assets and liabilities:		
Accounts receivable.....	(1,958)	(2,857)
Prepayments.....	3,410	(73)
Supply cost balancing accounts.....	(1,098)	2,025
Accounts payable.....	109	(1,882)
Taxes payable.....	1,058	5,375
Unbilled revenue.....	(2,731)	758
Accrued interest.....	812	635
Other.....	(1,188)	(387)
Net Cash Provided.....	26,180	22,485
Investing Activities:		
Construction expenditures.....	(30,386)	(23,385)
Net Cash Used.....	(30,386)	(23,385)
Financing Activities:		
Issuance of securities.....	15,000	7,637
Receipt of advances and		
Receipt of advances and contributions.....	2,831	826
Repayments of long-term debt and		
redemption of preferred shares.....	541	(132)
Refunds on advances.....	(2,536)	(2,928)
Net change in notes payable to banks.....	(7,000)	3,000
Common and preferred dividends paid.....	(8,533)	(8,405)
Net Cash Provided/(Used).....	304	(2)
Net Increase (Decrease) in Cash and Cash Equivalents.....	(3,902)	(902)
Cash and Cash Equivalents, Beginning of period.....	4,186	3,783
Cash and Cash Equivalents, End of period.....	\$284	\$2,881

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED BALANCE SHEETS
ASSETS

	SEPT. 30, 1998	DECEMBER 31, 1997
	-----	-----
	(Unaudited)	
	(in thousands)	
UTILITY PLANT, at cost		
Water.....	\$466,789	\$446,605
Electric.....	34,380	34,137
	-----	-----
	501,169	480,742
Less - Accumulated depreciation.....	(135,980)	(125,020)
	-----	-----
	365,189	355,722
Construction work in progress.....	40,559	27,901
	-----	-----
	405,748	383,623
	-----	-----
OTHER PROPERTY AND INVESTMENTS.....	763	1,355
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents.....	76	4,186
Accounts receivable -		
Customers, less reserves of \$320		
in 1998 and \$466 in 1997.....	10,702	8,544
Other.....	5,293	3,614
Unbilled revenue.....	11,838	9,106
Materials and supplies, at average cost.....	1,257	1,299
Supply cost balancing accounts.....	5,384	4,286
Prepayments and other.....	4,266	7,676
Accumulated deferred income taxes - net.....	5,075	5,783
	-----	-----
	43,891	44,494
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets.....	21,469	22,337
Other deferred charges.....	6,301	5,265
	-----	-----
	27,770	27,602
	-----	-----
	\$478,172	\$457,074
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED BALANCE SHEETS
CAPITALIZATION AND LIABILITIES

	SEPT. 30, 1998	DECEMBER 31, 1997
	-----	-----
	(Unaudited)	
	(in thousands)	
CAPITALIZATION		
Common shareholders' equity.....	\$154,546	\$151,053
Preferred shares.....	-	1,600
Preferred shares subject to mandatory redemption requirements.....	-	440
Long-term debt.....	130,803	115,286
	-----	-----
	285,349	268,379
	-----	-----
CURRENT LIABILITIES		
Notes payable to banks.....	19,000	26,000
Long-term debt and preferred shares due within one year.....	255	231
Accounts payable.....	11,971	11,770
Taxes payable.....	10,224	9,115
Accrued interest.....	2,680	1,868
Other accrued liabilities.....	7,653	7,196
	-----	-----
	51,783	56,180
	-----	-----
OTHER CREDITS		
Advances for construction.....	54,278	55,574
Contributions in aid of construction.....	36,153	28,467
Accumulated deferred income taxes - net.....	44,953	42,984
Unamortized investment tax credits.....	3,179	3,246
Regulatory tax-related liability.....	1,917	1,950
Other.....	560	294
	-----	-----
	141,040	132,515
	-----	-----
	\$478,172	\$457,074
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 1998 AND 1997
(UNAUDITED)

	THREE MONTHS ENDED SEPT. 30,	
	1998	1997
	(in thousands, except per share amounts)	
OPERATING REVENUES		
Water.....	\$43,797	\$42,494
Electric.....	3,189	3,206
	-----	-----
	46,986	45,700
	-----	-----
OPERATING EXPENSES		
Water purchased.....	11,104	13,300
Power purchased for pumping.....	2,280	2,446
Power purchased for resale.....	1,320	1,357
Groundwater production assessment.....	1,934	1,800
Supply cost balancing accounts.....	182	160
Other operating expenses.....	3,835	2,896
Administrative and general expenses.....	5,149	5,458
Depreciation.....	3,505	2,739
Maintenance.....	1,770	1,651
Taxes on income.....	4,787	3,912
Other taxes.....	1,610	1,596
	-----	-----
	37,476	37,315
	-----	-----
Operating income.....	9,510	8,385
OTHER INCOME/(LOSS).....	(104)	197
	-----	-----
Income before interest charges.....	9,406	8,582
INTEREST CHARGES.....	2,849	2,538
	-----	-----
NET INCOME.....	6,557	6,044
DIVIDENDS ON PREFERRED SHARES.....	-	(23)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS.....	\$6,557	\$6,021
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING.....	100	100
	=====	=====
Basic Earnings Per Common Share.....	\$65.57	\$60.21
	=====	=====
Dividends Declared Per Common Share.....	\$30,450	\$27,769
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 1998 AND 1997
(UNAUDITED)

	NINE MONTHS ENDED SEPT. 30,	
	1998	1997
	(in thousands, except per share amounts)	
OPERATING REVENUES		
Water.....	\$102,111	\$107,976
Electric.....	9,831	9,273
	-----	-----
	111,942	117,249
	-----	-----
OPERATING EXPENSES		
Water purchased.....	24,529	30,897
Power purchased for pumping.....	4,904	5,452
Power purchased for resale.....	3,764	3,651
Groundwater production assessment.....	5,542	5,382
Supply cost balancing accounts.....	(1,055)	2,841
Other operating expenses.....	10,861	9,698
Administrative and general expenses.....	15,897	16,238
Depreciation.....	9,454	8,217
Maintenance.....	5,432	5,448
Taxes on income.....	8,531	7,215
Other taxes.....	4,607	4,714
	-----	-----
	92,464	99,753
	-----	-----
Operating income.....	19,478	17,496
OTHER INCOME.....	27	457
	-----	-----
Income before interest charges.....	19,505	17,953
INTEREST CHARGES.....	8,338	7,516
	-----	-----
NET INCOME.....	11,167	10,437
DIVIDENDS ON PREFERRED SHARES.....	(46)	(69)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS.....	\$11,121	\$10,368
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING.....	100	100
	=====	=====
Basic Earnings Per Common Basic Earnings Per Common Share.....	\$111.21	\$103.68
	=====	=====
Dividends Declared Per Common Share.....	\$86,883	\$83,307
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE TWELVE MONTHS
ENDED SEPTEMBER 30, 1998 AND 1997
(UNAUDITED)

	TWELVE MONTHS ENDED SEPT. 30,	
	1998	1997
	(in thousands, except per share amounts)	
OPERATING REVENUES		
Water.....	\$135,123	\$141,108
Electric.....	13,325	12,163
	-----	-----
	148,448	153,271
	-----	-----
OPERATING EXPENSES		
Water purchased.....	31,949	39,966
Power purchased for pumping.....	7,006	7,632
Power purchased for resale.....	5,302	5,525
Groundwater production assessment.....	7,007	6,796
Supply cost balancing accounts.....	(1,082)	2,289
Other operating expenses.....	14,214	13,018
Administrative and general expenses.....	21,817	22,191
Depreciation.....	12,189	10,743
Maintenance.....	7,286	8,226
Taxes on income.....	11,145	8,728
Other taxes.....	6,175	6,363
	-----	-----
	123,008	131,477
	-----	-----
Operating income.....	25,440	21,794
	-----	-----
OTHER INCOME.....		
	328	675
	-----	-----
Income before interest charges.....	25,768	22,469
INTEREST CHARGES.....	10,979	10,220
	-----	-----
NET INCOME.....	14,789	12,249
DIVIDENDS ON PREFERRED SHARES.....	(69)	(92)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS.....	\$14,720	\$12,157
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING.....	100	100
	=====	=====
Basic Earnings Per Common Share.....	\$147.20	\$121.57
	=====	=====
Dividends Declared Per Common Share.....	\$115,100	\$107,754
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997
(UNAUDITED)

	NINE MONTHS ENDED SEPT. 30,	
	1998	1997
	(in thousands)	
CASH FLOWS FROM -		
Operating Activities:		
Net income.....	\$11,167	\$10,437
Adjustments for non-cash items:		
Depreciation and amortization.....	9,926	8,535
Deferred income taxes and investment tax credits.....	3,444	800
Other - net.....	5,772	(881)
Changes in assets and liabilities:		
Accounts receivable.....	(1,906)	(2,857)
Prepayments.....	3,410	(73)
Supply cost balancing accounts.....	(1,098)	2,025
Accounts payable.....	(150)	(1,882)
Taxes payable.....	1,109	5,375
Unbilled revenue.....	(2,731)	758
Accrued interest.....	812	635
Other.....	(1,077)	(387)
	28,678	22,485
Investing Activities:		
Construction expenditures.....	(30,851)	(23,385)
	(30,851)	(23,385)
Financing Activities:		
Issuance of securities.....	15,000	7,637
Receipt of advances and contributions.....	2,831	826
Repayments of long-term debt and redemption of preferred shares.....	(1,499)	(132)
Refunds on advances.....	(2,536)	(2,928)
Net change in notes payable to banks.....	(7,000)	3,000
Common and preferred dividends paid.....	(8,733)	8,405
	(1,937)	(2)
Net Increase (Decrease) in Cash and Cash Equivalents.....	(4,110)	(902)
Cash and Cash Equivalents, Beginning of period.....	4,186	3,783
Cash and Cash Equivalents, End of period.....	\$76	\$2,881

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

AMERICAN STATES WATER COMPANY
AND
SOUTHERN CALIFORNIA WATER COMPANY

NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. Shareholders of Southern California Water Company approved the formation of a holding company arrangement on April 28, 1998. Effective at 12:01 a.m. on July 1, 1998, American States Water Company ("AWR"), which was a wholly-owned subsidiary of SCW, became the parent company of SCW. As of the effective date, holders of SCW preferred and common shares became holders of AWR preferred and common shares and the stock certificates representing SCW preferred and common shares now represent AWR preferred and common shares. Certain non-regulated transactions have been transferred to AWR. Unless otherwise stated in this report, the term Registrant applies to both AWR and SCW, collectively. For the balance sheets at December 31, 1997 and, for all periods then ended, all of the financial statements are for SCW only.
2. For a summary of significant accounting policies and other information relating to these interim financial statements, reference is made to pages 28 through 32 of the 1997 Annual Report to Shareholders of SCW under the caption "Notes to Financial Statements."
3. Basic earnings per common share are calculated pursuant to 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. Registrant has no dilutive securities outstanding and, accordingly, diluted earnings per share is not shown.
4. In November, 1996, SCW filed an application with the California Public Utilities Commission (CPUC) seeking approval of its recovery through rates of costs associated with its participation in the Coastal Aqueduct Extension of the State Water Project (SWP). SCW's current investment in SWP is approximately \$1.8 million and is included in utility plant. In April 1998, SCW filed an amended application with the CPUC requesting recovery of costs associated with SWP from future customers. Registrant is currently unable to predict if the CPUC will authorize recovery through rates of all or any costs associated with its participation in SWP. See the section entitled "Rates and Regulation" for more information.
5. SCW implemented increased water rates in three of its rate-making districts on January 1, 1998. SCW filed applications with the CPUC to increase water rates applicable in six rate-making districts in March 1998 in addition to seeking recovery of costs associated with its general office functions from all customer service areas. See the section entitled "Rates and Regulation" for more information.
6. As permitted by the CPUC, SCW maintains water and electric supply cost balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Recoverability or refund of such over/under collections are recorded in income when received from customers and charged to balancing accounts when such costs are incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

GENERAL

American States Water Company ("AWR") was formed in 1998 and incorporated in the State of California as the result of approval by shareholders of Southern California Water Company ("SCW") to form a holding company. AWR is a holding company which operates through its subsidiaries and has no material assets other than the stock of SCW. Effective at 12:01 a.m. on July 1, 1998, AWR became the parent company of SCW. AWR's principal subsidiary, SCW, is a 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 California Public Utilities Commission ("CPUC") and was incorporated on December 31, 1929 under the laws of the State of California.

SCW is organized into three 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 6 customer service areas located in Los Angeles and Orange counties; and Region III incorporates 8 water customer service areas and the Bear Valley Electric customer service area. As of June 30, 1998, about 73% of SCW's water customers were located in the greater metropolitan areas of Los Angeles and Orange Counties. SCW also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County. All electric energy sold by SCW to customers in its Bear Valley Electric customer service area was purchased under an energy brokerage contract with ENOVA Energy Management, Inc.

Registrant served 242,523 water customers and 20,737 electric customers at September 30, 1998, or a total of 263,260 customers compared with 261,929 total customers at September 30, 1997. Registrant had 460 employees as of September 30, 1998 compared to 467 employees at September 30, 1997.

RESULTS OF OPERATION

Basic earnings per common share for the three months ended September 30, 1998 increased by 6.0% to \$0.71 per share as compared to \$0.67 per share for the comparable period last year. For the nine months ended September 30, 1998, basic earnings per share were \$1.22 as compared to \$1.16 for the nine months ended September 30, 1997, an increase of 5.2%. Basic earnings for the twelve months ended September 30, 1998 increased by 16.6% to \$1.62 per share as compared to \$1.39 per share for the twelve months ended September 30, 1997.

For the three months ended September 30, 1998, water operating revenues increased by 3.1% as compared to the three months ended September 30, 1997 despite a slight 0.8% decrease in sales volumes. In contrast, water operating revenues decreased by 5.4% and 4.2% for the nine and twelve months ended September 30, 1998 as compared to the same periods last year due principally to decreases of 12.9% and 9.7%, respectively, in water sales volumes resulting from the extremely wet weather experienced during the first two quarters of 1998. In each of the three periods, the effects of the decreased sales volumes were partially offset by rate increases effective January 1998. See the section entitled "Rates and Regulation" for more information.

For the three months ended September 30, 1998, kilowatt-hour sales of electricity decreased slightly by 0.7% as compared to the same period ended September 30, 1997 and, as a result, electric operating revenues for the quarter ended September 30, 1998 decreased slightly by 0.5%. For

the nine months and twelve months ended September 30, 1998, kilowatt-hour sales increased by 2.2% and 3.2%, respectively, as compared to the same periods ended September 30, 1997. As a result of the increased kilowatt-hour sales volumes, electric operating revenues for the nine and twelve month periods ending September 30, 1998 increased by 6.0% and 9.6%, respectively, over the comparable periods ending September 30, 1997. The increased revenues also reflect changes in rates effective January 1998. See the section entitled "Rates and Regulation" for more information.

Purchased water costs decreased by 16.5%, 20.6% and 20.1% as compared to 1997, respectively, for the three, nine and twelve months ended September 30, 1998 reflecting decreased amounts of water purchased by Registrant. See the section entitled "Water Supply" for more information.

Costs of power purchased for pumping decreased by 6.8%, 10.1% and 8.2%, respectively, for the three, nine and twelve months ended September 30, 1998 as compared to the same periods ended September 30, 1997. Registrant expenses costs for pumping on its financial statements when statements for such costs are presented. This methodology can reflect certain timing differences between the period when water is pumped and the time when electric or gas utility bills are rendered. Timing differences such as this, however, are reflected in the balancing account entries.

As compared to the three months ended September 30, 1997, the costs of power purchased for resale for the period ended September 30, 1998 decreased by 2.7% due to decreased kilowatt-hour sales. For the nine months ended September 30, 1998, the cost of power purchased for resale increased by 3.1% due to increased kilowatt-hour sales. For the twelve months ended September 30, 1998, purchased power for resale expense decreased by 4.0% reflecting savings from Registrant's energy supplier.

Groundwater production assessments are 7.4%, 3.0% and 3.1% higher for the three, nine and twelve months ended September 30, 1998 as compared to the same periods ended September 30, 1997 due to the increased amounts of pumped ground water in Registrant's resource mix and an additional assessment associated with increased pumping in Registrant's San Dimas customer service area, which is recoverable through the balancing account.

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. The negative entries for the nine and twelve months ended September 30, 1998 result from expiration in January 1998 of a surcharge designed to recover previously under-collected purchased water supply costs, supply costs for power purchased for pumping and groundwater production assessments. Registrant anticipates that previously under-collected supply costs will be recovered as part of new rates effective January 1999. See the section entitled "Rates and Regulation" for more information. The balancing account mechanism insulates earnings from changes in costs of purchased water, power purchased for pumping or resale and groundwater production assessments, all of which are outside the immediate control of Registrant. However, the balancing account mechanism is not designed to insulate earnings against changes in supply mix, as occurred during the first and second quarters of 1997. See the section entitled "Water Supply" for more information.

Other operating expenses increased by 32.6%, 12.0% and 9.2%, respectively, for the three, nine and twelve months ended September 30, 1998 as compared to the same periods ended September 30, 1997 due to persons charging more of their time to this category as well as to reversals

associated with recovery of water quality costs through the CPUC's memorandum account mechanism which were included in last years reported results. There were no such reversals of similar magnitude for the periods ended September 30, 1998.

Administrative and general expenses decreased by 5.6%, 2.1% and 1.7% for the three, nine and twelve months ended September 30, 1998, respectively, as compared to the same periods ended September 30, 1997 due to stability in costs associated with health insurance, post-retirement medical benefits, pension and 401-k plan costs, in addition to a reduction of employees charging all or some of their time to this category.

Depreciation expense increased by 32.9%, 16.7% and 14.7%, respectively, for the three, nine and twelve months ended September 30, 1998 principally reflecting the effects of recording approximately \$39 million in net plant additions during 1997, depreciation on which began in 1998. In addition, amortization of start-up and organizational costs associated with the formation of AWR affect the three, nine and twelve months ended September 30, 1998. There were no similar amortization costs in 1997.

Taxes on income increased by approximately 21.2%, 17.6% and 27.2%, respectively, for the three, nine and twelve months ended September 30, 1998 as compared to the same periods ended September 30, 1997 as a result of higher pre-tax income.

For the three months ended September 30, 1998, other taxes increased by 0.9%, attributable to an increase in franchise fee payments resulting from the 2.8% increase in water and electric revenues. For the nine and twelve months ended September 30, 1998, other taxes decreased by 2.3% and 3.0%, respectively, as compared to the same periods ending September 30, 1997 primarily due to decreased franchise fee payments resulting from lower revenues.

Maintenance expense decreased by 0.3% and 11.4% for the nine and twelve months ended September 30, 1998 as compared to the nine and twelve months ended September 30, 1997 reflecting the effects of the wet weather conditions experienced earlier in the year. For the three months ended September 30, 1998, maintenance expense increased by 7.2% as weather conditions allowed for planned maintenance.

As compared to the three, nine and twelve months ended September 30, 1997, other income decreased in each of the comparable periods ended September 30, 1998 due principally to continuing costs associated with Registrant's non-regulated joint venture. See the section entitled "Water-Related Opportunities" for more information.

Interest expense for the three, nine and twelve months ended September 30, 1998 increased by 12.3%, 10.9% and 7.4% over the same period last year primarily due to increased short-term bank borrowing during 1998 and the issuance, in March 1998, of \$15 million in long-term debt.

LIQUIDITY AND CAPITAL RESOURCES

AWR funds its operating expenses and dividends on its outstanding common and preferred shares principally through dividends from SCW. During the fourth quarter of 1998, AWR anticipates filing a Registration Statement with the Securities and Exchange Commission for issuance from time to time of securities, the proceeds of which will be utilized initially to repay bank borrowing and for investment purposes in its subsidiaries.

SCW's construction program is designed to ensure its customers high quality service. SCW maintains an ongoing 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 \$27.1 million in 1998 and \$42.9 million for 1999.

SCW funds the majority of its operating expenses, interest payments on its debt, dividends on its outstanding common shares and makes its mandatory sinking fund payments through internal sources. However, because of the seasonal nature of its water and electric businesses, SCW utilizes its short-term borrowing capacity on occasion to finance current operating expenses.

SCW continues to rely on external sources, including short-term bank borrowing, the receipt of contributions-in-aid-of-construction and advances for construction and install-and-convey advances, to fund the majority of its construction expenditures. The aggregate short-term borrowing capacity available to SCW under its three bank lines of credit was \$37 million as of September 30, 1998. As of September 30, 1998, SCW had a total of \$19 million in borrowing outstanding under those bank lines of credit. SCW routinely employs short-term bank borrowing as an interim financing source prior to executing either a long-term debt or equity issue. SCW issued \$15 million in long-term debt in March 1998 with the net proceeds used to repay a portion of then outstanding short-term bank borrowings.

SCW anticipates that it will issue additional long-term debt in 1998. During the fourth quarter of 1998, SCW anticipates filing a Registration Statement with the Securities and Exchange Commission for issuance of up to \$60 million in debt securities with the proceeds initially used to repay bank borrowing and, after that, to fund construction expenditures and refund higher cost debt instruments.

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

RATES AND REGULATION

SCW is subject to regulation by the CPUC as to its water and electric business and properties. The CPUC has broad powers to regulate public utilities with respect to service and facilities, rates, classifications of accounts, valuation of properties and the purchase, disposition and mortgaging of properties necessary or useful in rendering public utility service. The CPUC also has authority over the issuance of securities, the granting of certificates of convenience and necessity as to the extension of services and facilities and various other matters, including transactions with affiliates. AWR is not regulated by the CPUC.

The 22 customer service areas of SCW are grouped into 16 water districts and one electric district for rate-making purposes. SCW's water rates vary among the 16 rate-making districts due to differences in operating conditions and costs. SCW continuously monitors operations in each of these districts so that it may file applications for rate changes, when warranted, on a district-by-district basis, in accordance with the CPUC's procedure. Under the CPUC's practices, rates may be increased by three methods: general rate increases, offsets for certain expense increases and advice letter filings related to certain plant additions.

Rates in three of SCW's customer service areas were increased on January 1, 1998. In March 1998, SCW filed applications with the CPUC to increase water rates applicable to six other rate-

making districts, as well as recovery of costs associated with SCW's general office functions from all customer service areas. Representatives of SCW and CPUC Staff have settled all issues in these applications with the exception of return on equity. On October 29, 1998, the Administrative Law Judge issued a proposed decision which approved the settlement stipulation in its entirety and recommended a first test year return on rate base of 9.03%. The recommended return on rate base includes a recommended 10% return on equity. Registrant is currently unable to predict the outcome of the final CPUC decision on the settlement stipulation, the return on equity or if, ultimately, the CPUC will authorize all or any of the proposed increases. It is not anticipated that new rates, if approved, would be effective before January, 1999.

SCW has filed an application to combine tariff schedules among the customer service areas that currently make up SCW's Region III, into rates applicable on a regional basis. SCW anticipates that the regional tariffs will facilitate continued replacement of infrastructure while maintaining rates and revenues at acceptable levels. Registrant is currently unable to predict whether or not the CPUC will implement the regional tariffs.

Pursuant to a settlement agreement, new rates were effective in May 1996 in SCW's Bear Valley Electric customer service area that were completely offset by an increase in the amortization of an over-collection in the supply cost balancing account. The net result was no increase in revenues. An additional step increase was effective in January, 1997. In January 1998, amortization of the over-collection in the supply cost balancing account was complete and, as a result, rates increased accordingly.

In January 1998, the CPUC authorized a memorandum account for legal expenses associated with SCW's involvement in water quality related lawsuits in its San Gabriel Valley customer service area. In March 1998, the CPUC authorized similar memorandum accounts for legal expenses in SCW's Arden-Cordova customer service area. Moreover, and partially in response to the lawsuits, the CPUC has initiated an Order Instituting Investigation ("OII") into whether its existing standards and policies regarding drinking water quality adequately protect the public health and whether those standards and policies are being uniformly complied with by water utilities, including SCW, under its jurisdiction. See the section entitled "Legal Proceedings" for more information.

The CPUC also has two active Orders Instituting Rulemaking ("OIR") - one to provide guidelines for acquisition and mergers of water companies; the other to provide guidelines for the privatization and excess capacity as it relates to investor-owned water companies. Settlement discussions have begun in both OIR's although Registrant is unable to predict the outcome of such discussions or whether the CPUC will issue guidelines under either or both of the OIR's.

In November 1996, SCW filed an application with the CPUC seeking recovery through rates of costs associated with its participation in the coastal aqueduct extension of the State Water Project ("SWP"). In April 1998, SCW filed an amended application with the CPUC requesting recovery of its costs associated with participation in SWP from future customers. Registrant is currently unable to predict if the CPUC will authorize recovery of all or any of the costs associated with its participation in SWP. See "Notes to Financial Statements" for more information.

WATER SUPPLY

For the three months ended September 30, 1998, SCW produced a total of 26,730,000 ccf of water. Of this amount, approximately 60% came from pumped sources and 39% was purchased from others, principally the MWD. The remaining amount was supplied by the Bureau of Reclamation (the "Bureau") under a no-cost contract. During the three months ended September 30, 1997, SCW

produced 27,243,000 ccf of water, 51% of which came from pumped sources, 46% was purchased and the remainder was supplied by the Bureau.

For the nine months ended September 30, 1998, SCW produced 59,365,000 ccf of water, 61% of which came from pumped sources, 39% was purchased and the remaining amount was supplied by the Bureau. During the nine months ended September 30, 1997, SCW produced 67,700,000 ccf of water. Of this amount, 53% came from pumped sources, 45% was purchased and the remainder was provided by the Bureau.

During the twelve months ended September 30, 1998, SCW produced 78,068,000 ccf of water. Of this amount, approximately 60% of total supply came from pumped sources, 39% was purchased and the remaining was supplied by the Bureau. During the twelve months ended September 30, 1997, SCW produced 86,893,000 ccf of water. Of this amount, 53% of total supply came from pumped sources, 45% was purchased and the remainder came from the Bureau.

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. SCW has 52 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 State Water Project ("SWP"). Available water supplies from the Colorado River and the SWP have historically been sufficient to meet most of MWD's requirements and MWD's supplies from these sources are anticipated to continue to remain adequate through 1998. MWD's import of water from the Colorado River is expected to decrease in future years due to the requirements of the Central Arizona Project in the State of Arizona. In response, MWD has taken a number of steps to construct additional storage capacity and increase available water supplies, including effecting transfers of water rights from other sources.

Precipitation during the 1997-1998 winter period as a result of the "El Nino" weather pattern provided adequate supply to fill most of the state's reservoirs to near capacity and the outlook for water supply in 1998 is favorable. In those districts of SCW which pump groundwater, overall groundwater conditions remain at adequate levels, allowing SCW to use groundwater in its resource mix and decrease its dependence on increasingly expensive purchased water. SCW believes that its water supplies from all sources are adequate to meet current year projected demands.

Hydrologists are cautious in making any predictions about the long-term effects of the "El Nino" weather pattern, since weather patterns in the state of California are generally unpredictable and the El Nino weather patterns do not always repeat themselves. However, to the extent the El Nino weather pattern has brought above normal precipitation during 1998, SCW's sales volumes, revenues and earnings have been negatively impacted.

BUSINESS SEGMENTS

AWR currently has one principal business unit: water service and electric distribution utility operations conducted through its SCW subsidiary. AWR anticipates creating a new subsidiary company, American States Utility Services, Inc., through which its non-regulated activities will be conducted. All activities of Registrant currently are geographically located within the State of California. SCW is a regulated utility which operates both water and electric systems. On a stand alone basis, AWR has no material assets other than its investments in its subsidiaries.

ENVIRONMENTAL MATTERS

1996 Amendments to Federal Safe Drinking Water Act

On August 6, 1996, amendments (the "1996 SDWA amendments") to the Safe Drinking Water Act (the "SDWA") were signed into law. The 1996 SDWA revised the 1986 amendments to the SDWA with a new process for selecting and regulating contaminants. The 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. The new law allows the EPA to bypass the selection process and adopt interim regulations for contaminants in order to address urgent health threats. Current regulations, however, remain in place and are not subject to the new standard-setting provisions. The California Department of Health Services, acting on behalf of the EPA, administers the EPA's program in California.

The 1996 SDWA amendments allow the EPA for the first time to 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 cost for each such MCL.

SCW currently tests its wells and water systems for more than 90 contaminants, currently covering all contaminants listed in the SDWA, except for those from which SCW has received an exemption. Water from wells found to contain levels of contaminants above the established MCLs is treated before it is delivered to customers.

Since the SDWA became effective, SCW has experienced increased operating costs for testing to determine the levels, if any, of the constituents in SCW's 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 to experience additional capital costs as well as increased operating costs.

Registrant is currently unable to predict the ultimate impact that the 1996 SDWA amendments might have on its financial position or its results of operation. The ratemaking process provides SCW with the opportunity to recover prudently incurred capital and operating costs associated with water quality. Management believes that such incurred costs will be authorized for recovery by the CPUC.

Proposed Enhanced Surface Water Treatment Rule

On July 29, 1994, the EPA proposed an Enhanced Surface Water Treatment Rule ("ESWTR") which would require increased surface-water treatment to decrease the risk of microbial contamination. The EPA has proposed several versions of the ESWTR for promulgation. The version selected for promulgation will be determined based on data collected by certain water suppliers and forwarded to the EPA pursuant to EPA's Information Collection Rule, which requires such water suppliers to monitor microbial and other contaminants in their water supplies and to conduct certain tests in respect of such contaminants. The EPA has proposed an Interim ESWTR applicable only to systems serving greater than 10,000 persons. The final Interim ESWTR is expected to be promulgated by November 1998.

The long-term ESWTR, in any of the forms currently proposed, would apply to each of SCW's five surface water treatment plants and is expected to be promulgated by November 2000. However, because it is impossible to predict the version of the ESWTR that will be promulgated, Registrant is unable to predict what additional costs, if any, will be incurred to comply with the ESWTR.

Regulation of Disinfection/Disinfection By-Products

Registrant will also be subject to the new regulations concerning disinfection/disinfection by-products ("DBPs"), Stage I of which regulations is expected to become effective in November, 1998 with compliance required by 2001. Stage I will require reduction of tri-halomethane contaminants from 100 micrograms per liter to 80 micrograms per liter. Two of SCW's systems are immediately impacted by this rule. It is anticipated that both systems will be in full compliance by the time this rule is promulgated. SCW is presently implementing modifications to the treatment process in its Bay Point system in order to comply with the rule.

The EPA must adopt Stage II rules pertaining to DBPs, according to a negotiated schedule by 2000. The EPA is not allowed to use the new cost/benefit analysis provided for in the 1996 SDWA amendments for establishing the Stage II rules applicable to DBPs but may utilize the regulatory negotiating process provided for in the 1996 SDWA amendments to develop the Stage II rule. The final rule is expected by 2002.

Ground Water Rule

By December, 1998, the EPA is scheduled to propose regulations requiring disinfection of certain groundwater systems and provide guidance on determining which systems must provide disinfection facilities. The final rule is expected by December 1999. The EPA may utilize the cost/benefit analysis provided in the 1996 SDWA amendments to establish such regulations. It is anticipated that the regulations will apply to several of SCW's systems using groundwater supplies. While no assurance can be given as to the nature and cost of any additional compliance measures, if any, Registrant does not believe that such regulations will impose significant compliance costs, since SCW already currently engages in disinfection of its groundwater systems.

Regulation of Radon and Arsenic

Registrant will be subject to new regulations regarding radon and arsenic. EPA must propose an arsenic rule by January 1, 2000 and adopt a rule one year later. The EPA originally had 180 days after enactment of the 1996 SDWA amendments to develop a plan to study ways to reduce arsenic health risk uncertainties and was authorized to enter into cooperative agreements to carry out the study. The study is expected to be completed by the end of October 1998. Depending on the MCL eventually established for arsenic, compliance could cause Registrant to implement costly well-head treatment remedies such as ion exchange or, alternatively, to purchase additional and more expensive water supplies already in compliance, for blending with well sources.

The EPA has withdrawn its proposed radon rule and has arranged for the National Academy of Sciences to conduct a risk assessment and a study of risk-reduction benefits associated with various mitigation measures. The National Academy of Sciences has completed its study and has agreed with much of EPA's original findings but has slightly reduced the ingestion risk initially assumed by EPA. The EPA is expected to establish an MCL based on the findings of the National Academy of Sciences' risk assessment report and to set an alternative MCL based on potential mitigation measures for overall radon

reduction. Although Registrant is unable to predict what the standard for radon might eventually be, Registrant itself is currently conducting studies to determine the best treatment for affected wells.

Voluntary Efforts to Exceed Surface Water Treatment Standards

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 has committed to exceed current regulations governing surface water treatment to ensure that its surface treatment facilities are performing as efficiently as possible.

Fluoridation of Water Supplies

Registrant is subject to State of California Assembly Bill 733 which requires fluoridation of water supplies for public water systems serving more than 10,000 service connections. Although the bill requires affected systems to install treatment facilities only when public funds have been made available to cover capital and operating costs, the bill requires the CPUC to authorize cost recovery through rates should public funds for operation of the facilities, once installed, become unavailable in future years.

Matters Relating to Arden-Cordova System

In January, 1997, SCW was notified that ammonium perchlorate in amounts above the state-determined action level had been detected in three of its 27 wells serving its Arden-Cordova system. GenCorp Aerojet has, in the past, used ammonium perchlorate in their processing as an oxidizer of rocket fuels. SCW took the three wells detected with ammonium perchlorate out of service at that time. Although neither the EPA nor the DOHS has established a drinking water standard for ammonium perchlorate, DOHS has established an action level of 18 ppb which required SCW to notify customers in its Arden-Cordova customer service area of detection of ammonium perchlorate in amounts in excess of this action level. In April, 1997, SCW found ammonium perchlorate in three additional wells and, at that time, removed those wells from service until it was determined that the levels were below the state-determined action level. Those wells were returned to service. SCW provided periodic monitoring of these wells to determine that levels of perchlorate are below the action level currently in effect.

In February 1998, SCW was informed that a substance called nitrosodimethylemine ("NDMA") had been detected in amounts in excess of the EPA reference dosage for health risks in three of its wells in its Arden-Cordova system. Each of the wells has been removed from service. NDMA is an additional by-product from the production of rocket fuel and it is believed that such contamination is related to the activities of Aerojet-General Corporation. GenCorp Aerojet has reimbursed SCW for all necessary and reasonable activities in the construction of a pipeline to interconnect with the City of Folsom water system to provide an alternative source(s) of water supply in SCW's Arden-Cordova customer service area as well as reimburse SCW for costs associated with the drilling and equipping of two new wells.

SCW and GenCorp Aerojet are in negotiations on other matters related to procedures to address cleanup of the contaminated wells, costs associated with the cleanup, costs associated with increased costs of purchased water as compared to pumped sources and costs associated with developing new sources of groundwater supply. Registrant is unable to predict when the negotiations will be completed or the likely outcome of such negotiations.

Matters Relating to Culver City System

The compound, methyl tertiary butyl ether ("MTBE"), has been detected in the Charnock Basin, located in the city of Santa Monica and within SCW's Culver City customer service area. MTBE is an oxygenate used in reformulated fuels. 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 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 MWD at an increased cost to replace the water supply formerly pumped from the two wells removed from service.

Several studies are under way to determine the possible sources and causes of the MTBE contamination. The federal EPA is pursuing an enforcement effort to reach a settlement with the potentially responsible parties on matters relating to the cleanup of the contamination. Registrant is unable to predict the outcome of the EPA's enforcement efforts. Two of the potentially responsible parties and SCW have executed an agreement, effective through 1998, which provides for reimbursement of SCW's legal and consulting costs related to this matter as well as on-going reimbursement from such parties for increased costs incurred by SCW in purchasing replacement water. SCW and such parties are negotiating an extension of this agreement to remain effective until the underlying groundwater basin contamination is remediated.

Bear Valley Electric

There have been no environmental matters that have materially affected or are currently materially affecting SCW's Bear Valley Electric customer service area. SCW has been, in conjunction with the Southern California Edison unit of Edison International, planning to upgrade transmission facilities to 115kv (the "115kv Project") in order to meet increased energy and demand requirements. The 115kv Project is subject to an environmental impact report ("EIR") and delays in approval of EIR may impact service in SCW's Bear Valley electric customer service area. SCW has, however, taken other measures to meet load growth in order mitigate delays in approval of the EIR.

WATER-RELATED OPPORTUNITIES

AWR continues to pursue strategic opportunities and incur expenses related thereto relative to the operation of municipally-owned water and wastewater systems on a stand-alone basis, through its subsidiaries and as part of a joint venture. AWR currently has a contract to read water meters for the City of Tustin, California and a contract to operate and maintain the water system of the City of Bell Gardens, California. The contract with the City of Bell Gardens consolidates all residents of that city under the operation of a single service provider. SCW is the service provider under both contracts.

YEAR 2000 COMPLIANCE

Registrant has been actively assessing its Year 2000 ("Y2K") readiness since early 1997 and has inventoried its significant computer hardware and software programs. Registrant is dependent upon its management information and customer service systems and upgrades to these systems have been a priority. Registrant has, since 1995, been in the process of replacing and/or upgrading as necessary its core business information and operating systems with newer technologies, all of which will be Y2K ready. Registrant is currently completing upgrades to certain of its business information software and hardware which are 2000 compliant and initial tests performed on such upgrades has been successful. Registrant anticipates that all major upgrades to these systems will be complete and operational prior to year-end

1998. Costs associated with the implementation and upgrade of major management information and customer service software systems, as well as upgrades to its mainframe hardware systems, has been approved by the CPUC and are recovered through rates.

In addition to work being done on Registrant's internal systems, Registrant has sought compliance certification from external vendors and service providers. Testing on Registrant's interface with financial and other institutions with which it does business is being conducted to ensure Y2K readiness. In order to more fully address Y2K readiness of its field equipment, major vendors and service providers, Registrant has engaged the services of a nationally-recognized business consulting firm. With this assistance, Registrant will complete its inventory of computer system and other devices with embedded technology as well as other considerations potentially not revealed in Registrant's analyses. Based on this inventory, remediation of these critical systems will be prioritized to ensure Y2K readiness. Some, less critical systems may not be fully Y2K ready, but are not anticipated to materially affect Registrant's operations.

Registrant is significantly dependent on third party suppliers, such as energy and telecommunication companies and wholesale water suppliers, in order to conduct its business. Registrant has initiated due diligence with certain of its major service providers to address their Y2K readiness. In the event that such suppliers might be adversely affected by Y2K, Registrant is preparing its contingency plan, which is anticipated to be completed by the first quarter of 1999.

To date, there have been no significant costs associated with Y2K readiness that have not been approved by the CPUC for recovery through rates. Registrant believes that future costs associated with Y2K, which are prudently incurred, will be allowed for recovery through rates.

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, liquidity and capital resources, opportunities related to operations of municipally-owned water systems and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as utility restructuring, including ongoing local, state and federal activities; future economic conditions, including changes in customer demand; future climatic conditions; legislative, regulatory and other circumstances affecting anticipated revenues and costs; and abilities of other companies to remain or become year 2000 compliant.

PART II

ITEM 1. LEGAL PROCEEDINGS

Water Quality-Related Litigation

On April 24, 1997, a complaint in multiple counts seeking recovery for negligence, wrongful death, strict liability, trespass, public nuisance, private nuisance, negligence per se, strict

liability for ultrahazardous activities and fraudulent concealment was filed in Los Angeles Superior Court on behalf of approximately 145 plaintiffs (the "Adler Matter"). After preliminary Demurrers and Motions to Strike, these same plaintiffs filed a First Amended Complaint on or about October 16, 1997 seeking recovery on essentially the same theories. Plaintiffs allege SCW has provided and continues to provide them with allegedly contaminated water from wells located in an area of the San Gabriel Valley that has been designated a federal environmental superfund site, and that the maintenance of this contaminated well water has resulted in contamination of the soil, subsurface soil, and surrounding air, with trichloroethylene, perchloroethene, carbon tetrachloride and other solvents. Plaintiffs further allege that SCW's actions have caused, and continue to cause, injuries to the plaintiffs. Plaintiffs 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.

On June 23, 1998, the judge assigned to the Adler Matter, acting on the Court's own motion, issued a stay until June 15, 1999 of all proceedings in the Adler matter pending the outcome of the CPUC's OII proceeding. Plaintiffs in the Adler matter have filed a Writ of Mandate and hearings before the Appellate Court have been scheduled for January 1999.

SCW was served on November 3, 1997 as Doe I in the matter of Santamaria v. Suburban Water Systems which was filed in Los Angeles Superior court (the "Santamaria Matter"). On August 27, 1998, the judge assigned to the Santamaria Matter sustained SCW's demurrer without leave to amend and dismissed the action against SCW.

In January 1998 SCW was named a defendant in the matter of Nathaniel Allen, Jr., et al. v. Aerojet-General Corporation, et al which was filed in Sacramento Superior court. The complaint makes claims based on wrongful death, personal injury, property damage as a result of nuisance and trespass, medical monitoring, and diminution of property values (the "Allen Matter"). SCW and other defendants have delivered water to plaintiffs which allegedly is, or has been in the past, contaminated with a number of chemicals, including TCE, PCE, carbon tetrachloride, perchlorate, Freon-113, hexavalent chromium and other, unnamed, chemicals. On February 9, 1998, defendant McDonnell Douglas Corporation removed this case to United States District Court for the Eastern District of California. A Motion for Partial Dismissal or in the Alternative to Strike and for a More Definitive Statement was also filed by McDonnell Douglas Corporation. SCW filed its Demurrers and Motion to Strike in this matter on June 5, 1998. On August 31, 1998, the judge assigned to the Allen Matter, acting on the Court's own motion, issued a stay until June 15, 1999 of all proceedings in the Allen Matter pending the outcome of the CPUC's OII proceeding. As a result, Registrant anticipates that legal activity related to this matter will not be significant during the period in which the stay is in effect.

In April 1998, SCW was named a defendant in the matter of Daphne Adams, et al. v. Aerojet General, et al. which was filed in Sacramento Superior court (the "Adams Matter"). The complaint makes claims based on negligence, strict liability, trespass, public nuisance, private nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, violation of California business and professions code section 17200 et seq., intentional infliction of emotional distress, intentional spoilage of evidence, negligent destruction of evidence needed for prospective civil litigation, wrongful death and medical monitoring. Plaintiffs seek damages, including general, punitive and exemplary damages, as well as attorney's fees, costs of suit, injunctive, restitutionary relief, disgorged profits and civil penalties, medical monitoring according to proof and other unspecified relief. SCW filed its Demurrers and Motion to Strike in this matter on June 5, 1998. On August 31, 1998, the judge assigned to the Adams Matter, acting on the Court's own motion, issued a stay until June 15, 1999 of all proceedings in the Adams Matter pending the outcome of the CPUC's OII proceeding. As a result,

Registrant anticipates that activity related to this matter will not be significant during the period in which the stay is in effect.

On July 30, 1998, a complaint in multiple counts, styled *Georgianna Dominguez, et al. v. Southern California Water Company, et al.*, was filed in Los Angeles Superior Court seeking recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, public permanent nuisance, public continuing nuisance, private permanent nuisance, private continuing nuisance, negligence per se, absolute liability for ultrahazardous activity and fraudulent concealment on behalf of six plaintiffs (the "Dominguez Matter"). Plaintiffs seek damages, including general and special according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served with the complaint on September 21, 1998.

In light of the breadth of plaintiff's claims, the lack of factual information regarding plaintiff's claims and injuries, if any, and the fact that no discovery has yet been completed, Registrant is unable at this time to determine what, if any, potential liability it may have with respect to claims in these matters. Registrant intends to vigorously defend itself against these claims.

Other Litigation

Registrant is also subject to ordinary routine litigation incidental to its business. Other than as disclosed above, no legal proceedings are pending, except such incidental litigation, to which Registrant is a party or of which any of its properties is the subject which are believed to be material.

Order Instituting Investigation

In response to these lawsuits and similar actions, the CPUC in March 1998 issued an Order Instituting Investigation ("OII") directed to all Class A and B water utilities in the state of California, including SCW, into whether existing standards and policies regarding drinking water quality adequately protect the public health and whether those standards and policies are being uniformly complied with by those water utilities. The OII notes the constitutional and statutory jurisdiction of the CPUC and the DOHS to establish and enforce adherence to water quality standards for water delivered by utilities to their customers and, in the case of the CPUC, to establish rates which permit water utilities to furnish safe water meeting the established water quality standards at prices which are both affordable and that allow the utility to earn a reasonable return on its investment. The OII initially provides for compliance reports to be submitted by all Class A and B water utilities, including SCW, on a series of questions dealing with the safety of current drinking water standards, compliance by water utilities with such standards, appropriate remedies for failure to comply with safe drinking water standards and whether stricter or additional safe drinking water standards are required. The OII initially required all Class A and B water utilities to submit their reports by July 15, 1998 although the deadline was extended to September 11, 1998. SCW has made its filing in this proceeding. It is anticipated that the Water Division of the CPUC will issue its report, based on these filings by the utilities, by January 4, 1999. Although the OII leaves open the possibility of evidentiary hearings and further action by the CPUC, Registrant is currently unable to predict the outcome of this proceeding.

ITEM 2. CHANGES IN SECURITIES

As of September 30, 1998, earned surplus amounted to \$56,173,000, none of which is restricted as to payment of cash dividends on SCW's Common Shares by any terms of SCW's debt instruments.

As of September 30, 1998, Authorized But Unissued Common Shares includes 89,226 and 71,408 Common Shares reserved for issuance under AWR's Dividend Reinvestment and Common Share Purchase Program ("DRP") and Investment Incentive Program ("401-k" Plan), respectively. Common Shares reserved for the 401-k Plan are in relation to the matching contributions by SCW and for investment purposes by participants.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during the third quarter of the fiscal year covered by this report to a vote of security holders through the solicitation of proxies or otherwise.

ITEM 5. OTHER INFORMATION

On October 26, 1998, the Board of Directors of AWR declared a regular quarterly dividend of \$0.315 per common share. The dividend will be paid December 1, 1998 to shareholders of record of AWR as of the close of business on November 9, 1998. In other actions, the Board of Directors declared regular quarterly dividends of \$0.25 per share, \$0.265625 per share and \$0.3125 per share on its 4%, 4-1/4% and 5% Cumulative Preferred Shares, respectively.

On October 27, 1998, the Board of Directors of AWR approved formation of American States Utility Services, Incorporated ("ASUS"). ASUS will be a wholly-owned subsidiary of AWR and will conduct AWR's non-regulated activities.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following Exhibits on Securities and Exchange Commission Form 8-K were filed during the period covered by this report and are incorporated herein by reference:

Rights Agreement, dated as of August 3, 1998, by and between American States Water Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (incorporated by reference to the Form 8-A filed with the Securities and Exchange Commission on August 20, 1998.)

(b) The following Reports on Securities and Exchange Commission Form 8-K were filed during the period covered by this report:

Distribution of Rights -- relating to approval by the Board of Directors of a distribution of one right for each outstanding common share of Registrant. The distribution is to be made of as September 22, 1998. Each Right entitles the registered holder to purchase from Registrant, initially, one one-thousandth of a share of Junior Preferred Stock at a price of \$120, subject to adjustment. The complete description and terms of the Rights are set forth in a Rights Agreement between Registrant and ChaseMellon Shareholder Services, L.L.C., as Rights Agent.

Summary of certain risks of Registrant's businesses that may affect future financial results, including litigation, environmental regulation, rates and regulation, adequacy of water supplies, water quality, weather, unregulated activities, potential year 2000 risks,

capital expenditures, economic conditions and condemnation.
(Incorporated by reference to the filing made with the
Securities and Exchange Commission on November 2, 1998.)

Exhibit 27

Financial Data Schedule (Submitted in electronic format only
to the Securities and Exchange Commission)

SIGNATURES

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 duly authorized officer and chief financial officer.

AMERICAN STATES WATER COMPANY
and its subsidiary
SOUTHERN CALIFORNIA WATER COMPANY

By: /s/ McClellan Harris III

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

By: /s/ Linda J. Matlick

Linda J. Matlick
Controller

Dated: November 3, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEETS AND INCOME STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS FILED HEREWITH.

0001056903

SOUTHERN CALIFORNIA WATER CO.

1,000

9-MOS	DEC-31-1997	JAN-01-1998	SEP-30-1998	PER-BOOK
	405,748			
	1,602			
	43,653			
	27,768			
		0		
		478,771		
			22,394	
	74,397			
		56,173		
153,504				
	480			
			1,600	
	130,803			
		19,000		
130,092				
0				
75				
	40			
926				
		140		
0				
478,771				
	111,958			
		8,484		
84,074				
92,558				
	19,400			
		(78)		
19,322				
	8,338			
			10,984	
	68			
10,916				
	8,465			
	0			
	26,180			
			1.22	
			1.22	