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 March 31, 2003 or

o 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	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	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☒ Noo

Southern California Water Company	Yes☒	Noo

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

American States Water Company	Yes☒	Noo
Southern California Water Company	Yeso	No☒

As of May 14, 2003, the number of Common Shares outstanding, no par value with stated value of $2.50, of American States Water Company was 15,194,865 shares.

As of May 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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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)

(in thousands)	March 31, 2003	December 31, 2002
Utility Plant, at cost		
Water	$ 698,579	$ 693,949
Electric	40,998	41,017
	739,577	734,966
Less - Accumulated depreciation	(212,371)	(206,873)
	527,206	528,093
Construction work in progress	39,943	35,218
	567,149	563,311
Other Property and Investments	22,610	22,670
Current Assets		
Cash and cash equivalents	16,415	18,397
Accounts receivable-customers (less allowance for doubtful accounts of $735 in 2003 and $769 in 2002)	10,387	10,833
Unbilled revenue	11,066	12,277
Other accounts receivable	2,006	2,411
Taxes receivable	—	557
Materials and supplies, at average cost	1,007	936
Supply cost balancing accounts - current	3,171	3,215
Prepayments and other	2,677	3,220
	46,729	51,846
Deferred Charges and Other Long-Term Assets		
Regulatory tax-related assets	13,028	12,828
Supply cost balancing accounts	24,589	25,248
Other accounts receivable	3,370	3,370
Other	26,075	22,377
Total deferred charges	67,062	63,823
Total Assets	$ 703,550	$ 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)

(in thousands)	March 31, 2003	December 31, 2002
Capitalization		
Common shareholders’ equity	$213,315	$213,279
Long-term debt	230,887	231,089
Total capitalization	444,202	444,368
Current Liabilities		
Notes payable to banks	30,000	35,000
Long-term debt - current	13,305	13,305
Accounts payable	8,385	11,600
Taxes payable	962	—
Accrued employee expenses	5,091	5,105
Accrued interest	5,110	1,941
Other	11,929	12,569
Total current liabilities	74,782	79,520
Other Credits		
Advances for construction	70,923	70,208
Contributions in aid of construction - net	48,532	47,751
Accumulated deferred income taxes - net	56,375	53,817
Unamortized investment tax credits	2,769	2,791
Regulatory tax-related liability	2,005	2,011
Other	3,962	1,184
Total other credits	184,566	177,762
Commitments and Contingencies	—	—
Total Capitalization and Liabilities	$703,550	$701,650

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 MARCH 31, 2003 AND 2002
(Unaudited)

(in thousands, except per share amounts)	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Operating Revenues		
Water	$39,425	$39,091
Electric	7,004	5,206
Other	247	188
	46,676	44,485
Operating Expenses		
Water purchased	7,888	7,572
Power purchased for pumping	1,956	1,975
Power purchased for resale	3,856	4,816
Unrealized loss on purchased power contracts	283	—
Groundwater production assessment	1,667	1,795
Supply cost balancing accounts	958	(2,326)
Other operating expenses	4,040	3,776
Administrative and general expenses	7,524	7,564
Depreciation and amortization	4,947	4,568
Maintenance	1,950	1,892
Taxes on income	1,995	3,013
Other taxes	2,057	1,922
Total operating expenses	39,121	36,567
Operating Income	7,555	7,918
Other Income		
Total other income	—	256
Income before interest charges	7,555	8,174
Interest Charges		
Interest on long-term debt	4,255	4,256
Other interest and amortization of debt expense	310	111
Total interest charges	4,565	4,367
Net Income	2,990	3,807
Dividends on Preferred Shares	—	(21)
Earnings Available for Common Shareholders	$ 2,990	$ 3,786
Weighted Average Number of Shares Outstanding	15,188	15,120
Basic Earnings Per Common Share	$ 0.20	$ 0.25
Weighted Average Number of Diluted Shares	15,194	15,129
Fully Diluted Earnings Per Share	$ 0.20	$ 0.25
Dividends Declared Per Common Share	$ 0.221	$ 0.217

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

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AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE TWELVE MONTHS
ENDED MARCH 31, 2003 AND 2002
(Unaudited)

(in thousands, except per share amounts)	Twelve Months Ended March 31, 2003	Twelve Months Ended March 31, 2002
		Restated Note 2
Operating Revenues		
Water	$187,394	$184,420
Electric	23,097	16,500
Other	905	789
	211,396	201,709
Operating Expenses		
Water purchased	43,174	38,689
Power purchased for pumping	10,557	10,037
Power purchased for resale	14,857	16,745
Unrealized loss on power purchased contracts	2,813	—
Groundwater production assessment	7,289	7,169
Supply cost balancing accounts	(122)	(10,740)
Other operating expenses	17,248	16,810
Administrative and general expenses	29,969	36,093
Depreciation and amortization	18,682	18,036
Maintenance	9,897	8,319
Taxes on income	11,931	15,027
Other taxes	7,817	7,485
Total operating expenses	174,112	163,670
Operating Income	37,284	38,039
Other Income/(Loss)		
Total other income (loss)	135	(69)
Income before interest charges	37,419	37,970
Interest Charges		
Interest on long-term debt	16,970	14,523
Other interest and amortization of debt expense	927	1,659
Total interest charges	17,897	16,182
Net Income	19,522	21,788
Dividends on Preferred Shares	(9)	(83)
Earnings Available for Common Shareholders	$ 19,513	$ 21,705
Weighted Average Number of Shares Outstanding	15,161	15,120
Basic Earnings Per Common Share	$ 1.29	$ 1.44
Weighted Average Number of Diluted Shares	15,181	15,125
Fully Diluted Earnings Per Share	$ 1.29	$ 1.44
Dividends Declared Per Common Share	$ 0.876	$ 0.867

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

CONSOLIDATED CASH FLOW STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(Unaudited)

(in thousands)	Three Months Ended March 31, 2003	2002
Cash Flows From Operating Activities:		
Net income	$ 2,990	$ 3,807
Adjustments for non-cash items:		
Depreciation and amortization	4,947	4,568
Deferred income taxes and investment tax credits	2,330	2,286
Other - net	240	(886)
Changes in assets and liabilities:		
Accounts receivable - customers	446	885
Unbilled revenue	1,211	796
Other accounts receivable	405	75
Prepayments and other current assets	472	365
Supply cost balancing accounts	703	(2,326)
Deferred charges and other assets	(1,327)	(1,141)
Accounts payable	(3,215)	2,465
Taxes payable	1,519	(1,050)
Other current liabilities	2,515	3,211
Net cash provided	13,236	13,055
Cash Flows From Investing Activities:		
Construction expenditures	(8,409)	(8,159)
Net cash used	(8,409)	(8,159)
Cash Flows From Financing Activities:		
Proceeds from issuance of common shares	402	58
Receipt of advances for and contributions in aid of construction	1,780	974
Refunds on advances for construction	(433)	(449)
Repayment of long-term debt	(202)	(227)
Net change in notes payable to banks	(5,000)	(20,000)
Common and preferred dividends paid	(3,356)	(3,296)
Net cash used	(6,809)	(22,940)
Net decrease in cash and cash equivalents	(1,982)	(18,044)
Cash and cash equivalents, beginning of period	18,397	30,496
Cash and cash equivalents, end of period	$16,415	$ 12,452
Non-cash activities - supplemental disclosures:		
Adoption of new accounting standard for asset retirement obligtions:		
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)

(in thousands)	March 31, 2003	December 31, 2002
Utility Plant, at cost		
Water	$ 660,408	$ 656,331
Electric	40,998	41,017
	701,406	697,348
Less - Accumulated depreciation	(201,923)	(196,660)
	499,483	500,688
Construction work in progress	38,597	33,705
	538,080	534,393
Other Property and Investments	7,961	8,018
Current Assets		
Cash and cash equivalents	7,239	11,677
Accounts receivable-customers (less allowance for doubtful accounts of $693 in 2003 and $729 in 2002)	10,207	10,609
Unbilled revenue	10,879	12,060
Intercompany receivable	3,142	1,044
Other accounts receivable	1,831	2,234
Materials and supplies, at average cost	977	905
Supply cost balancing accounts - current	3,171	3,215
Prepayments and other	2,537	3,005
	39,983	44,749
Deferred Charges and Other Long-Term Assets		
Regulatory tax-related assets	13,028	12,828
Supply cost balancing accounts	24,589	25,248
Other accounts receivable	3,370	3,370
Other	25,126	21,405
Total deferred charges	66,113	62,851
Total Assets	$ 652,137	$ 650,011

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

(in thousands)	March 31, 2003	December 31, 2002
Capitalization		
Common shareholders' equity	$206,836	$207,562
Long-term debt	222,668	222,725
Total capitalization	429,504	430,287
Current Liabilities		
Long-term debt - current	12,780	12,780
Accounts payable	7,973	10,576
Intercompany payable	8,000	13,000
Taxes payable	2,603	1,099
Accrued employee expenses	5,013	5,033
Accrued interest	4,916	1,843
Other	11,636	12,276
Total current liabilities	52,921	56,607
Other Credits		
Advances for construction	60,270	59,640
Contributions in aid of construction	48,250	47,480
Accumulated deferred income taxes-net	53,678	51,195
Unamortized investment tax credits	2,769	2,791
Regulatory tax-related liability	2,005	2,011
Other credits	2,740	—
	169,712	163,117
Commitments and Contingencies	—	—
Total Capitalization and Liabilities	$652,137	$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 MARCH 31, 2003 AND 2002
(Unaudited)

	Three Months Ended March 31,	
(in thousands, except per share amounts)	2003	2002
Operating Revenues		
Water	$38,169	$37,734
Electric	7,004	5,206
	45,173	42,940
Operating Expenses		
Water purchased	7,710	7,415
Power purchased for pumping	1,890	1,904
Power purchased for resale	3,856	4,816
Unrealized loss on power purchased contracts	283	—
Groundwater production assessment	1,667	1,795
Supply cost balancing accounts	958	(2,326)
Other operating expenses	3,753	3,542
Administrative and general expenses	7,010	6,828
Depreciation and amortization	4,718	4,341
Maintenance	1,872	1,822
Taxes on income	2,090	3,150
Other taxes	1,949	1,802
Total operating expenses	37,756	35,089
Operating Income	7,417	7,851
Other Income/(Loss)		
Total other income (loss) - net	(3)	263
Income before interest charges	7,414	8,114
Interest Charges		
Interest on long-term debt	4,140	4,136
Other interest and amortization of debt expense	150	(36)
Total interest charges	4,290	4,100
Net Income	$ 3,124	$ 4,014
Weighted Average Number of Shares Outstanding	110	110
Basic Earnings Per Common Share	$28,400	$36,491
Dividends Declared Per Common Share	$35,000	$30,000

The accompanying notes are an integral part of these financial statements

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SOUTHERN CALIFORNIA WATER COMPANY

STATEMENTS OF INCOME
FOR THE TWELVE MONTHS
ENDED MARCH 31, 2003 AND 2002
(Unaudited)

(in thousands, except per share amounts)	Twelve Months Ended March 31, 2003	Twelve Months Ended March 31, 2002
		Restated Note 2
Operating Revenues		
Water	$181,338	$178,133
Electric	23,097	16,500
	204,435	194,633
Operating Expenses		
Water purchased	42,477	38,179
Power purchased for pumping	10,154	9,601
Power purchased for resale	14,857	16,746
Unrealized loss on power purchased contracts	2,813	—
Groundwater production assessment	7,289	7,169
Supply cost balancing accounts	(122)	(10,740)
Other operating expenses	16,035	15,754
Administrative and general expenses	26,355	34,444
Depreciation and amortization	17,761	16,877
Maintenance	9,652	8,087
Taxes on income	12,545	14,972
Other taxes	7,515	6,993
Total operating expenses	167,331	158,082
Operating Income	37,104	36,551
Other Income/(Loss)		
Total other income (loss) - net	52	(151)
Income before interest charges	37,156	36,400
Interest Charges		
Interest on long-term debt	16,523	14,048
Other interest and amortization of debt expense	303	785
Total interest charges	16,826	14,833
Net Income	$ 20,330	$ 21,567
Weighted Average Number of Shares Outstanding	110	110
Basic Earnings Per Common Share	$184,818	$196,064
Dividends Declared Per Common Share	$138,000	$123,000

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

CASH FLOW STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(Unaudited)

(in thousands)	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Cash Flows From Operating Activities:		
Net income	$ 3,124	$ 4,014
Adjustments for non-cash items:		
Depreciation and amortization	4,718	4,341
Deferred income taxes and investment tax credits	2,255	2,591
Other - net	171	(572)
Changes in assets and liabilities:		
Accounts receivable - customers	402	1,096
Unbilled revenue	1,181	801
Other accounts receivable	403	110
Prepayments and other current assets	396	319
Supply cost balancing accounts	703	(2,326)
Deferred charges and other assets	(1,322)	(110)
Accounts payable	(2,603)	(416)
Intercompany payable	(7,098)	(19,687)
Taxes payable	1,504	3,065
Other current liabilities	2,413	(824)
Net Cash Provided	6,247	(7,598)
Cash Flows From Investing Activities:		
Construction expenditures	(8,029)	(8,029)
Net Cash Used	(8,029)	(8,029)
Cash Flows From Financing Activities:		
Receipt of advances for and contributions in aid of construction	1,684	969
Refunds on advances for construction	(433)	(449)
Repayments of long-term debt	(57)	(93)
Common and preferred dividends paid	(3,850)	(3,300)
Net Cash Used	(2,656)	(2,873)
Net decrease in cash and cash equivalents	(4,438)	(18,500)
Cash and cash equivalents, beginning of period	11,677	26,079
Cash and cash equivalents, end of period	$ 7,239	$ 7,579
Non-cash activities - supplemental disclosures:		
Adoption of new accounting standard for asset retirement obligtions:		
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 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 stock 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 term Registrant applies 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 generally accepted accounting principles 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 March 31, 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 March 31, 2002:

	Twelve Months Ended March 31, 2002			
	AWR		SCW	
(dollars in thousands except EPS)	Previously Reported	Restated	Previously Reported	Restated
Statements of Income:				
Taxes on income	$15,679	$15,027	$ 15,624	$ 14,972
Operating income	37,387	38,039	35,899	36,551
Net income	21,136	21,788	20,915	21,567
Basic earnings per share	$ 1.40	$ 1.44	$190,136	$196,064
Diluted earnings per share	$ 1.40	$ 1.44	N/A	N/A

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 representing 68,153 common shares were granted to certain eligible employees on May 1, 2000, stock options representing an additional 68,486 common shares were granted on January 2, 2001, stock options representing 116,775 common shares and 1,050 restricted stock shares were granted on February 4, 2002, and stock options representing 150,400 common shares were granted on January 1, 2003. As a result, fully diluted earnings per share amounts are shown. Earnings per share also reflect a three-for-two split of Registrant'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.

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. However, the CPUC has not issued a final decision regarding the mechanism for recovery of costs recorded in the newly established memorandum account. SCW's recovery of deferred water supply costs for providing water service may be reduced if SCW is earning more than its authorized rate of return on a weather normalized basis. 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. SCW's basic earnings per share for the quarter and the twelve months ended March 31, 2003 were $0.04 and $0.19, respectively, less than they would have been if the November 2001 CPUC order had not been issued. SCW anticipates recovering the under-collection tracked in the water supply cost memorandum account as part of its Region III rate case application filing submitted to the CPUC in October 2002. SCW may not, however, be able to fully recover the under-collection of supply costs if it is earning a rate of return in excess of that allowed. SCW had a net under-collection position of approximately $2.5 million recorded in its water supply balancing account at March 31, 2003 related to pre-November 29, 2001 activities. Of these amounts, recovery of approximately $0.2 million is currently included in rates. On December 17, 2002, the CPUC issued an order authorizing water utilities, including SCW, to file advice letters, within 90 days, requesting recovery of the balancing accounts prior to November 29, 2001. SCW filed such advice letters for the unrecovered balance of $2.3 million on March 17, 2003.

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 $23.9 million at March 31, 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 39,685,000 and 39,197,000 kilowatt hours of electricity to its Bear Valley Electric division customers during the three months ended March 31, 2003 and 2002, respectively, and 132,314,000 and 128,499,000 kilowatt hours, respectively, for the twelve months ended March 31, 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 has been 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. The following is a reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligations ("ARO"):

	For The Three Months Ended March 31, 2003				
	Balance at Adoption January 1, 2003	**Liabilities Incurred**	**Liabilities Settled**	**Accretion**	**Balance At March 31, 2003**
ARO	$2,718,079	—	—	40,927	$2,759,006

Note 5 - New Accounting Pronouncements (Continued):

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, “Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections”. Among other things, SFAS No. 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of APB No. 30 are met. This Statement also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 provisions were effective for fiscal years beginning after May 15, 2002. The adoption of SFAS No. 145 did not have a material impact on Registrant’s financial position, results of operations or cash flows.

In June 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities”. This Statement addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” Costs addressed by SFAS No. 146 include costs to terminate a contract that is not a capital lease, costs of involuntary employee termination benefits pursuant to a one-time benefit arrangement, costs to consolidate facilities, and costs to relocate employees. This Statement will be effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have an effect on Registrant’s financial position, results of operations or cash flows as Registrant did not exit, discontinue or restructure any of its operations.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure”. This Statement amends SFAS No. 123, “Accounting for Stock-Based Compensation,” to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Registrant was required to comply with the requirements of SFAS 148 beginning January 1, 2003; however, Registrant has elected to continue to apply the recognition and measurement provisions of APB 25. Therefore, SFAS No. 148 did not have any impact on Registrant’s financial position, results of operations or cash flows. In addition, interim disclosures are not presented since pro forma net income and earnings per share do not materially differ from reported amounts.

In April 2003, the 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 yet determined the financial statement impact of adopting the new Statement.

In November 2002, the FASB also issued FASB Interpretation No. (FIN) 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others”. This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued and requires that they be recorded at fair value. The initial recognition and measurement provisions of this interpretation are to be applied only on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on Registrant’s financial position, results of operations or cash flows.

Note 5 - New Accounting Pronouncements (Continued):

FIN 46, “Consolidation of Variable Interest Entities” was issued in January 2003. This interpretation expands upon existing guidance that addresses when a company should include in its financial statements the assets and liabilities of another entity. The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (“variable interest entities”) and to determine when and which business enterprise should consolidate the variable interest entity (the “primary beneficiary”). FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest make additional disclosures. The transitional disclosure requirements of FIN 46 are effective immediately. The effective date of the consolidation requirements of FIN 46 depends on the date the variable interest entity was created. FIN 46 is applicable immediately for variable interest entities created after January 31, 2003. For variable interest entities created prior to January 31, 2003, the provisions of FIN 46 are applicable no later than July 31, 2003. Registrant does not expect the adoption of Interpretation 46 to have an effect on its financial position, results of operations or cash flows.

Note 6 - 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.

	For The Three Months Ended March 31, 2003				
	SCW				
(dollars in thousands)	Water	Electric	CCWC Water	Non-Regulated	Consolidated AWR
Operating revenues	$ 38,169	$ 7,004	$ 1,256	$ 247	$ 46,676
Operating income (loss) before income taxes	9,704	(197)	177	(134)	9,550
Interest expense, net	3,939	351	121	154	4,565
Identifiable assets	511,190	26,890	29,012	57	567,149
Depreciation expense	4,326	392	229	—	4,947
Capital additions	7,294	735	390	(10)	8,409

	For The Three Months Ended March 31, 2002				
	SCW				
(dollars in thousands)	Water	Electric	CCWC Water	Non-Regulated	Consolidated AWR
Operating revenues	$ 37,734	$ 5,206	$ 1,357	$ 188	$ 44,485
Operating income (loss) before income taxes	10,181	820	320	(390)	10,931
Interest expense, net	3,765	335	126	141	4,367
Identifiable assets	487,454	27,172	28,558	—	543,184
Depreciation expense	3,979	362	227	—	4,568
Capital additions	6,376	1,653	130	—	8,159

Note 6 - Business Segments (Continued):

	For The Twelve Months Ended March 31, 2003				
	SCW				
(dollars in thousands)	Water	Electric	CCWC Water	Non-Regulated	Consolidated AWR
Operating revenues	$181,338	$23,097	$ 6,056	$ 905	$211,396
Operating income (loss) before income taxes	46,498	3,151	1,605	(2,038)	49,216
Interest expense, net	15,450	1,376	477	594	17,897
Identifiable assets	511,190	26,890	29,012	57	567,149
Depreciation expense	16,267	1,494	921	—	18,682
Capital additions	42,380	1,261	1,385	57	45,083

	For The Twelve Months Ended March 31, 2002				
	SCW				
(dollars in thousands)	Water	Electric	CCWC Water	Non-Regulated	Consolidated AWR
Operating revenues	$178,134	$16,499	$ 6,287	$ 789	$201,709
Operating income (loss) before income taxes	55,911	(4,388)	1,918	(375)	53,066
Interest expense, net	13,621	1,213	517	831	16,182
Identifiable assets	487,454	27,172	28,558	—	543,184
Depreciation expense	15,494	1,383	1,159	—	18,036
Capital additions	44,546	2,072	549	—	47,167

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 service division.

SCW served 248,942 water customers and 22,010 electric customers at March 31, 2003, or a total of 270,952 customers, compared with 269,399 total customers at March 31, 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 94.7% and 91.2% of total water revenues for the three and twelve months ended March 31, 2003, respectively, as compared to 94.7% and 90.8% for the three and twelve months ended March 31, 2002, respectively.

AWR also owns two other subsidiaries. American States Utility Services, Inc. (ASUS) contracts to lease, operate and maintain water and wastewater systems owned by others and to provide related services, such as billing and meter reading, to approximately 90,000 accounts. Chaparral City Water Company (CCWC) is an Arizona public utility company serving 11,910 customers as of March 31, 2003, compared with 11,625 customers at March 31, 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 March 31, 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 March 31, 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 March 31, 2002:

	Twelve Months Ended March 31, 2002			
	AWR		SCW	
(dollars in thousands except EPS)	Previously Reported	Restated	Previously Reported	Restated
Statements of Income:				
Taxes on income	$15,679	$15,027	$ 15,624	$ 14,972
Operating income	37,387	38,039	35,899	36,551
Net income	21,136	21,788	20,915	21,567
Basic earnings per share	$ 1.40	$ 1.44	$190,136	$196,064
Diluted earnings per share	$ 1.40	$ 1.44	N/A	N/A

Results of Operation

Basic earnings per common share for the three months ended March 31, 2003 decreased by 20% to $0.20 per share as compared to $0.25 per share for the comparable period last year. As compared to the twelve months ended March 31, 2002, basic earnings decreased by 10.4% to $1.29 per share from $1.44 per share. The decreases in the recorded results primarily reflect the increased water supply costs, unrealized losses for power purchased contracts since November 2002, higher interest expenses and various other reasons as discussed below. All earnings per share presented reflect a three-for-two split of Registrant's common shares to holders of record on May 15, 2002.

Fully diluted earnings for the three and twelve months ended March 31, 2003 were $0.20 and $1.29 per share, respectively, as compared to $0.25 and $1.44 per share for the comparable periods of 2002.

As compared to the three and twelve months ended March 31, 2002, revenues from water operations increased by 0.9% and 1.6%, respectively, for the same periods ended March 31, 2003 due to two rate increases for SCW's Region II that were effective on January 21, 2003 and February 4, 2003, respectively. The twelve-month comparison also reflects an increase of 2.8% in consumption and step rate increases in the customer service areas that comprise SCW's Region I were effective January 1, 2002. The increases were partially offset by the termination of a surcharge, which was authorized to decrease the balancing account under-collection in SCW's Metropolitan customer service area. Differences in temperature and rainfall in Registrant's service areas will impact sales of water to customers and may cause fluctuations in Registrant's revenues and earnings between comparative periods. See the section entitled *"Regulatory Matters"* included in Part I, Item 2 in Managements Discussion and Analysis of Financial Condition and Results of Operation for more information.

Revenues from electric operations increased by 34.6% and 40.0%, respectively, for the three and twelve months ended March 31, 2003 as compared to the same periods ended March 31, 2002. The increases reflect (i) a rate increase of 12.5% effective May 24, 2001 and an additional 14.8% increase effective August 23, 2001 authorized by the CPUC to recover previously under-collected energy costs, and (ii) rate increases in July 2002 authorized by the CPUC to cover purchased power costs under various power supply agreements. The twelve-month comparison is also impacted by an increase of 3.0% 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. See the section 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 for more information.

Purchased water costs increased by 4.2% and 11.6%, respectively, for the three and twelve months ended March 31, 2003 as compared to the same periods ended March 31, 2002 due to an increase in purchased water volume resulting from (i) slightly higher water consumption and (ii) additional purchased water necessary during each of the comparable periods for 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 Orange County and Foothill districts. The twelve-month comparison also reflects refunds received from SCW's wholesale water suppliers in December 2001 of approximately $777,000 for which there was no counterpart during the twelve-months ended March 31, 2003. In addition, the twelve-months ended March 31, 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.

Cost of power purchased for pumping decreased slightly by 1% for the three months ended March 31, 2003 as compared to the three months ended March 31, 2002 due to additional wells down for maintenance and water quality issues. The effect of wells being offline was partially offset by increased power rates and increased pumping costs in SCW's Region I associated with the treatment and distribution of surface water in lieu of groundwater. For the twelve-months ended March 31, 2003, cost of power purchased for pumping increased by 5.2% as compared to the twelve-months ended March 31, 2002 due to the rate increases implemented in 2001 by SCW's energy suppliers, in particular Southern California Edison Company and Pacific Gas and Electric Company. In 2001, the CPUC approved a portion of SCW's advice letters to increase revenues by approximately $1.4 million annually to recover the costs of purchased power for certain of its water ratemaking districts. 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. For further information, see the sections entitled "*Regulatory Matters*" and "*Electric Energy Situation in California*" included in Part I, Item 2 in Managements Discussion and Analysis of Financial Condition and Results of Operation.

Costs of power purchased for resale to customers in SCW's Bear Valley Electric division decreased by 14.1% for the three months ended March 31, 2003 due primarily to lower power costs, $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. Costs of power purchased for resale decreased by 11.3% for the twelve months ended March 31, 2003 due primarily to (i) decreased purchased power costs as discussed previously, and (ii) a one-time sale of energy on the spot market that generated a $644,000 gain in April 2001. The gain is the subject of a complaint filed at the Federal Energy Regulatory Commission by Mirant where Mirant, the purchaser of the energy, is seeking to be refunded all or a portion of the gain. The sale of excess energy on the spot market in 2001 was enabled by a one-month overlap of energy purchase agreements. For further information, see the sections entitled "*Electric Energy Situation in California*" included in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operation and "*Quantitative and Qualitative Disclosures About Market Risk"* included in Part I, Item 3.

The entry for unrealized loss on power purchased contracts represent losses recorded for SCW's power purchase agreements, effective November 2002 with PWCC, which qualify as derivative instruments under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". The unrealized loss resulted from the contract prices with PWCC being higher than current forward market prices. Based on forward market pricing and discount rate as of March 31, 2003, Registrant anticipates recording an additional unrealized loss of $2 million for the year 2003. There is no cash flow impact. Management is evaluating alternatives to minimize future unrealized loss. This extraordinary item (unrealized loss 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.

Groundwater production assessments for the three months ended March 31, 2003 decreased by 7.1% as compared to the three months ended March 31, 2002 due primarily to wells in the Foothill and Orange County Districts being down for maintenance and water quality reasons, which resulted in increased purchased water and less pumping. For the twelve-months ended March 31, 2003 groundwater production assessments increased by 1.7% as compared to the same period ended March 31, 2002 reflecting an increase in well production and higher assessments levied against production for the water year 2002/2003 as compared with the previous year in SCW's Metropolitan customer service area, partially offset by revenues from leases of unused water rights to third parties in SCW's Barstow customer service area.

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. A decrease in the positive entry for the three and twelve months ended March 31, 2003 when compared to the same period last year, primarily reflects new rates and surcharges authorized in 2001 and 2002 to recover electric power costs and under-collection in the electric balancing account. At March 31, 2003, Registrant had a combined net under-collected position of $26.5 million in both its water and electric balancing accounts primarily due to the increases in energy costs. For further information, see the sections entitled "*Accounting for Supply Costs", "Liquidity and Capital Resources", "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.

Other operating expenses increased by 7% for the three months ended March 31, 2003 as compared to the same period of last year due to increased accrual for bad debt and higher labor costs. Other operating expenses increased by 2.6% for the twelve months ended March 31, 2003 as compared to the same periods of last year. The increases reflected higher labor costs, partially offset by a refund for a sewer service overpayment, reimbursement received from settling parties and the San Gabriel Basin Water Quality Authority for expenses incurred in the San Gabriel basin at one company-owned water treatment plant to meet water quality standards, and a decrease in the accrual for bad debt.

Administrative and general expenses decreased slightly by 0.5% for the three months ended March 31, 2003. Administrative and general expenses decreased by 16.9% for the twelve-months ended March 31, 2003 reflecting 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 to offset future impacts to earnings for the difference between authorized rates and SCW's actual electric power costs under its agreement with Mirant Americas Energy Marketing, LP. 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 partially offset by increased benefits related costs, and higher outside service expenses. For further information, see the sections entitled *"Regulatory Matters"* and "*Electric Energy Situation in California*" in Part I, Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Depreciation expense increased by 8.3% and 3.6%, respectively, for the three and twelve months ended March 31, 2003 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 March 31, 2003 the comparison was also impacted by the elimination, effective January 1, 2002, of amortization of the goodwill recorded in AWR's acquisition of CCWC. Amortization of this goodwill was approximately $248,300 for the twelve months ended March 31, 2002.

As compared to the three and twelve months ended March 31, 2002, maintenance expense increased by 3.1% and 19%, respectively, 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.

Taxes on income decreased by 33.8% and 20.6%, respectively, as compared to the three and twelve months ended March 31, 2002, due to lower pre-tax operating income for the comparable periods ended March 31, 2003.

Other taxes increased by 7% and 4.4%, respectively, for the three and twelve months ended March 31, 2003 reflecting additional property taxes resulting from higher assessed values, and increases in payroll taxes based on increased labor costs.

As compared to the three and twelve months ended March 31, 2002, respectively, the change in other income for the same periods ended March 31, 2003 reflects (i) the sale of a parcel of non-operating property in Region II of SCW in the first quarter of 2002, (ii) recording certain non-regulated expenses to administrative and general expenses of ASUS, a non-regulated subsidiary, and (iii) the write-off of approximately $312,000 in expenses associated with the termination of the acquisition of Peerless Water Company in the fourth quarter of 2001.

Interest expense increased by 4.5% and 10.6%, respectively, for the three and twelve months ended March 31, 2003 as compared to the same periods ended March 31, 2002. The increases reflected the issuance of $50 million in long-term debt by SCW in December 2001, partially offset by a reduction in short-term borrowing.

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. However, the CPUC has not issued a final decision regarding the mechanism for recovery of costs recorded in the newly established memorandum account. SCW's recovery of deferred water supply costs for providing water service may be reduced if SCW is earning more than its authorized rate of return on a weather normalized basis. 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. SCW's basic earnings per share for the three and twelve months ended March 31, 2003 were $0.04 and $0.19, respectively, less than they would have been if the November 2001 CPUC order had not been issued. SCW anticipates recovering the under-collection tracked in the water supply cost memorandum account as part of Region III rate case application filing submitted in October 2002. SCW may not, however, be able to fully recover the under-collection of supply costs if it is earning a rate of return in excess of that allowed.

SCW had a net under-collection position of $2.5 million recorded in its water supply balancing account at March 31, 2003 related to pre-November 29, 2001 activities. Of these amounts, recovery of approximately $0.2 million is currently included in rates. On December 17, 2002, the CPUC issued an order authorizing water utilities, including SCW, to file advice letters, within 90 days, requesting recovery of the balancing accounts prior to November 29, 2001. SCW filed such advice letters for the unrecovered balance of $2.3 million on March 17, 2003.

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 $24 million at March 31, 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 39,685,000 and 132,314,000 kilowatt hours of electricity, respectively, to its Bear Valley Electric division customers for the three and twelve months ended March 31, 2003, and 39,197,000 and 128,499,000 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 is a critical accounting policy adopted during the quarter ended March 31, 2003:

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 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 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 Three Months Ended March 31, 2003				
	Balance at Adoption January 1, 2003	Liabilities Incurred	Liabilities Settled	Accretion	Balance At March 31, 2003
ARO	$2,718,079	—	—	40,927	$2,759,006

Liquidity and Capital Resources

AWR

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 March 31, 2003, approximately $31.1 million remained for issuance under this Registration Statement.

During 2001, AWR maintained a $25 million credit facility, $20 million of which was outstanding at December 31, 2001. This credit facility expired on January 2, 2002. 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 March 31, 2003, an aggregate of $30 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

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 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 notes in the public or private markets.

The following table reflects Registrant's contractual obligations and commitments to make future payments pursuant to contracts as of March 31, 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)	19,453	91	194	218	18,950
Other Debt Instruments(5)	2,396	188	404	453	1,350
Purchased Power Contracts(6)	68,213	12,014	23,988	23,947	8,265
Operating leases (7)	6,382	1,794	3,257	1,331	—
Other Commitments (8)	77,257	—	—	—	—
Chaparral City Water Company (9)	8,744	526	1,158	620	6,440
TOTAL	$396,045	$27,113	$29,001	$26,569	$236,105

(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 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 422 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 $68.2 million purchased power contracts with Pinnacle West Capital Corporation 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 March 31, 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 $9,075 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 $1.0 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.

Under the terms of its power purchase contracts with Mirant Americas Energy Marketing, LP and Pinnacle West Capital Corporation, 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 March 31, 2003, SCW had accrued $24 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 Americas Energy Marketing, LP (Mirant) in March 2001, and reversed the balance due to various new contracts entered into with Pinnacle West Capital Corporation (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 Power Marketing, Inc. (DYPM) 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 DYPM that expired on April 30, 2002, DYPM 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 DYPM and the amounts charged by DYPM. As a result of these disputes, SCW withheld payment from DYPM of certain amounts invoiced by DYPM. On November 1, 2002, DYPM 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. A hearing was conducted on this matter in October 2002. On December 19, 2002, the administrative law judge issued an initial decision denying SCW's request to reduce the charges under the contract. SCW has appealed the initial decision which results in the complaint being reviewed by the full Commission. SCW anticipates that it is unlikely that FERC will grant its request to reduce these charges.

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 March 31, 2002, $48 per MWh from November 1, 2002 to March 31, 2003, and $36 per MWh from November 1, 2003 to March 31, 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's BVE customer service area 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 March 31, 2003 and each succeeding November 1 through March 31 period through March 31, 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 the Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", and have been recognized at fair market value on the balance sheet as a liability of $2.8 million at March 31, 2003 and an unrealized loss of $283,000 against earnings for the first quarter of 2003, which is anticipated to accumulate to approximately $2 million for calendar year 2003 based on forward market pricing and discount rate as of March 31, 2003. This extraordinary item (unrealized loss 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.

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 $81.2 and $87.4 per MWh, respectively, for the three and twelve months ended March 31, 2003. SCW's average energy cost can be impacted by pricing fluctuation at the spot market.

SCW is a party to the FERC proceedings in which refunds are being sought on purchases of power in the spot market in California from October 2, 2000 through June 2001. It is anticipated that a decision will be issued by FERC by the end of the second quarter of 2003. SCW was not a direct participant in the spot market. As a result, SCW has not yet been able to determine what, if any effect this decision will have on SCW.

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 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, negligent misrepresentation, intentional misrepresentation and unjust enrichment. As a result of the delays and the pending litigation, it is highly unlikely that the transmission upgrade will occur. Therefore, SCW is considering the construction of 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 was filed on March 28, 2002 seeking the CPUC's authorization for construction of the generation facility. If approved, it will result in the need to file for further increases in electric energy prices for customers of SCW's Bear Valley Electric customer service area. For more information, see the section entitled "*Regulatory Matters-Pending Rate Changes*" included in Part I, Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

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. However, approved capital expenditures may be limited pending CPUC approval of SCW's general rate case filings. For further information, see the section entitled *"Regulatory Matters-Pending Rate Changes"* included in Part I, Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

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. 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.

Neither SCW nor CCWC has 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.

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 and 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.

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.

In March 2001, the CPUC approved SCW's Advice Letters to recover increased costs of purchased power by $761,351 incurred to pump water for its water customers included in base water rates for each of its ratemaking districts. In April 2001, SCW filed additional Advice Letters by ratemaking areas to increase water rates by approximately $2.3 million company-wide to recover additional electric base rate increases, authorized by the CPUC for the Southern California Edison Company and the Pacific Gas and Electric Company. The CPUC approved in the fourth quarter of 2001 increases of approximately $672,900 in base water rates. For further information, see the section "*Electric Energy Situation in California*" included in Part I, Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operation. The remaining Advice Letters filed by SCW to recover increased power costs used for pumping were rejected by the CPUC due to the change in procedures for collections of water supply costs on November 29, 2001. 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.

As of March 31, 2003, SCW had accrued approximately $24 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 $11.1 million in aggregate over five years, equivalent to 2.2¢ per kilowatt hour, for recovery of its under-collection in the electric balancing account.

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 Americas Energy Marketing, LP and Pinnacle West Capital Corporation (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 $8.2 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.

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 FERC rules a price reduction, SCW is required, based on the settlement, to file an Advice Letter to notify the CPUC within 30 days of the ruling. On December 19, 2002, the Administrative Law Judge issued an initial decision denying SCW's request to reduce the charges under the contract. SCW has appealed the initial decision which results in the complaint being reviewed by all member commissions at the FERC. SCW anticipates that it is unlikely that FERC will grant its request to reduce these charges. See the section entitled "*Electric Energy Situation in California*" included in Part I, Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Pending Rate Changes

On March 28, 2002, SCW filed for a Certificate of Public Convenience and Necessity (CPCN) seeking the CPUC's 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, which, if approved by the CPUC, will authorize construction and enable SCW to file a rate application subsequently, to generate an annual revenue increase of about $2.4 million. The rate application will be subject to additional review by the CPUC.

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 third 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. A final order is anticipated during 2003.

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. On December 17, 2002, the CPUC issued an order authorizing water utilities, including SCW, to file advice letters within 90 days requesting recovery of any under-collections remaining in the balancing accounts for water supply costs incurred prior to November 29, 2001. On March 17, 2003, SCW filed advice letters seeking recovery of $2.3 million. 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

On August 6, 1996, amendments (the 1996 SDWA amendments) to the Safe Drinking Water Act (the SDWA) were signed into law. The 1996 SDWA amendments revised the 1986 amendments to the SDWA with a new process for selecting and regulating contaminants. 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 1996 SDWA amendments allow the EPA 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 costs for each such MCL.

SCW and CCWC currently test their wells and water systems according to requirements listed in the 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 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. 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 appropriate.

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 new 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.

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), as required by the 1996 SDWA amendments. 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 once the EPA makes its new announcement.

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 March 31, 2003, Aerojet had previously reimbursed SCW $4.5 million of the approximately $19 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 assigns 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 takes over the prosecution against the potentially responsible parties in exchange for an assignment payment. The settlement agreement has been approved by the CPUC on May 8, 2003. The order also directs SCW to file a new proceeding within 30 days 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. The Office of Ratepayer Advocates may comment on SCW's proposal, within 10 days of receipt of SCW's filing.

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.

On May 6, 2003, OCWD filed a lawsuit in Orange County Superior Court seeking recovery of past and future costs associated with the investigation, monitoring and removal of MTBE and other gasoline oxygenate additives from Orange County groundwater supplies managed by OCWD. Registrant is not a party to this action and is unable to predict its outcome or impact on its operations. In addition, Registrant is unable to predict what impact, if any, this action will have on its continuing separate negotiations with the PRPs.

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.

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 $450,000 towards future operating and maintenance (O&M) costs of operating 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 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 O&M costs and 100% of future O&M costs for a period of up to 30 years for VOC treatment facilities at these wells.

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 conducting vulnerability assessments for its large systems by March 31, 2003. Large systems are defined as systems serving a population of 100,000 or more. These formal assessments will be submitted in accordance with the Federal deadline. 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, approximately $15 million, has been included in an application filed with the CPUC in October 2002. Registrant is unable to predict if the CPUC will authorize recovery of any or all of these costs.

Water Supply

SCW's Water Supply

For the three months ended March 31, 2003, SCW supplied a total of 16,449,000 CCF of water. Of this amount, approximately 56.4% came from pumped sources and 41.3% was purchased from others, principally the Metropolitan Water District of Southern California (MWD). The Bureau of Reclamation (the Bureau) supplied the remaining amount under a no-cost contract. SCW supplied 17,212,000 CCF of water for the same period of 2002, 62.5% of which came from pumped sources, 37.5% was purchased, and the Bureau supplied the remainder.

For the twelve months ended March 31, 2003, SCW supplied a total of 86,992,000 CCF of water. Of this amount, approximately 54.6% came from pumped sources and 42% was purchased from others, principally the Metropolitan Water District of Southern California (MWD). The Bureau of Reclamation (the Bureau) supplied the remaining 3.4%. For the twelve months ended March 31, 2002, SCW supplied 858,898,000 CCF of water, 58% of which came from pumped sources, 40.1% 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 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. 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. Current weather conditions have been favorable. Precipitation for current water year from October 2002 to March 2003 in California has been 100% of normal with April levels well above normal. At the beginning of April statewide snow pack water equivalence was only 65% of normal and at the end of April it was 117% of normal. Runoff thru March was at 95% of normal and given April's snowfall spring runoff should be above the 65% forecast at the beginning of April. Overall water year runoff is forecasted to be 90%.

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, have caused increased 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 January 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

The Arizona outlook is more optimistic with drought conditions expected to end or at least ameliorate. Precipitation through March 2003 has brought level up to near normal, statewide 78.6% of normal level. Reservoirs at the end of March were at 87% of normal with Lake Powell at 71% and Lake Mead at 82% with inflow into Lake Powell at 67% of normal.

El Nino conditions continue to slowly decay but still persist in the Pacific. The National Oceanic and Atmospheric Association (NOAA) forecasts continued mild El Nino conditions which will mean normal precipitation levels for California and Arizona from May to June. However given the severity of the drought in Arizona drought conditions will persist while California should return to normal. Longer term there is the possibility of La Nina conditions developing later in the year which would mean reduced precipitation levels for California and Arizona but no definite pattern has emerged.

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 ABWA 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-K 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 SCW's earnings against changes in supply mix. As a result, SCW was 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 are 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 its water service areas. However, the CPUC has not issued a final decision regarding the mechanism for recovery of costs recorded in the newly established memorandum account. Our recovery of deferred water supply costs for providing water service could be reduced if we are earning more than our authorized rate of return on a weather normalized basis. Additionally, 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 $0.04 and $0.19 per share, respectively, for the three and twelve months ended March 31, 2003 as a result of this change in the methodology for recovering water supply costs. While we cannot determine the outcome, SCW has filed various rate cases which include requests to recover the above mentioned memorandum account dollars.

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 new rates have been in effect since July 17, 2002. As of March 31, 2003, we have accrued $24 million in under-collected power costs in our electric supply balancing account. The CPUC 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 this under-collection. 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 Pinnacle West Capital Corporation (PWCC) enable SCW to purchase a contractual volume of power at $74.65 per megawatt hour (MWh). The agreements with PWCC have not been reviewed by the CPUC and we are unable to predict if the regulatory body will authorize recovery of any or all of these costs.

SCW still needs to buy additional energy from the spot market to meet peak demand and sell surplus power to the spot market from time to time. The average cost of power purchased including the transactions in the spot market was approximately $81.2 and $87.4 per MWh, respectively, for the three and twelve months ended March 31, 2003. SCW’s energy cost can be impacted by pricing fluctuation, and amount of energy purchased and sold at any given time in the spot market.

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 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. The extent which SCW and other CPUC regulated water utilities may be subject to liability under the ruling is currently being addressed by the trial court in the area that gave rise to the Supreme Court ruling.

SCW is unable to predict the outcome of any of this litigation or the extent to which it will be able to recover its litigation costs from ratepayers or other third parties.

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.

The Potentially Responsible Parties, i.e. the polluters, have raised the possibility that water producers, such as SCW and CCWC, may have liability under certain environmental statutes if their pumping operations affect the movement of the contamination. SCW has been required to remove certain wells from service because its pumping activities might affect the movement of contamination. Currently, neither the Environmental Protection Agency nor any other governmental agency has identified SCW or, to our knowledge, any other water producer, as a potentially responsible party. However, a Federal Court judge has ruled that certain water producers in the San Gabriel Valley, including SCW, are PRPs due to their ownership of groundwater production wells contaminated with hazardous chemicals. We are not able to predict how this designation might impact us, however, our future results of operations could be adversely affected if either SCW or CCWC is required to pay clean-up costs and is not allowed to recover such costs in rates. To date, the CPUC has 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 one CCWC plant
- Additional regulation of disinfection/disinfection byproducts
- Additional regulations expected to be adopted 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

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.

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 are seeking CPUC authorization to construct 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 our supply costs has and will directly impact our earnings. The recovery of deferred water supply costs may be reduced if we are earning an amount in excess of our authorized rate of return.

We have been adversely affected by electric restructuring in California and the escalation of energy costs that we have only recently begun recovering in rates. SCW has also filed a complaint with FERC seeking a reduction of the rates in its power purchase contract with Mirant Americas Energy Marketing, L.P. (Mirant) to a just and reasonable price, which SCW expects to be denied. There is a complaint by Mirant against us pending at the FERC. There are also proceedings pending before FERC to restructure the California energy markets.

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 America Energy Marketing, L.P. (Mirant) and Pinnacle West Capital Corporation (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, has been recognized at fair market value on the balance sheet as of March 31, 2003. This resulted in a pre-tax unrealized loss of $2.5 million in 2002 and $283,000 for the first quarter ended March 31, 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 the 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. Controls and Procedures

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. Disclosure controls and procedures 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. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. There have been no significant changes, deficiences or material weakness in our internal controls 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 and adding qualified staff as 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 in the southern portion of the State of California 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 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 in northern California 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.

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 March 31, 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, contingent upon the court's approval of the good faith of the State's settlement offer.

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 March 31, 2003, approximately $14.6 million in legal and other related costs has been recorded in the 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.

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 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. 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, 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 $1.7 million in this matter, all of which has been expensed. This matter is expected to go to trial during the second quarter of 2003.

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 March 31, 2003, earned surplus amounted to $86,444,000.

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 to the sum of $21 million plus 100% of consolidated net income plus the aggregate net cash proceeds received from capital stock offerings or other instruments convertible into capital stock after 1991.

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 its retained earnings, respectively, under California law.

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 $3.9 million was available to pay dividends from CCWC to AWR at March 31, 2003.

There are 709,379 and 63,906 Common Shares authorized but unissued under the DRP and the 401(k) Plan, respectively, at March 31, 2003. Shares reserved for the 401(k) Plan are in relation to Company matching contributions and for investment 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.

Registrant implemented a three-for-two split of Registrant's common stock 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, Registrant 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

No items were submitted during the first quarter of the fiscal year covered by this report to a vote of security holders through the solicitation of proxies or otherwise. However, 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 Annual Meeting will be held on May 20, 2003.

Item 5. Other Information

On May 8, 2003, the Board of Directors of Registrant declared a regular quarterly dividend of $0.221 per common share. The dividend will be paid June 1, 2003 to shareholders of record as of the close of business on May 19, 2003.

The certifications of Registrant's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, were filed as correspondence with the Securities and Exchange Commission concurrent with this Form 10-Q.

Item 6. Exhibits and Reports on Form 8-K

(a) There are no Exhibits during the period covered by this report.

(b) Registrant filed a Form 8-K with the Securities and Exchange Commission (SEC) on March 31, 2003 announcing late filing of its Form 10-K with the SEC for the period ending December 31, 2002, and restatements for the years ended December 31, 2001 and 2000 in connection with a deferred tax study. Registrant filed its Form 10-K with the SEC on April 8, 2003.

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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: May 15, 2003

CERTIFICATIONS

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

1) I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2003 (this “quarterly report”);

2) Based on my knowledge, this quarterly 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 quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4) The Registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Section 240.13a-14of the General Rules and Regulations promulgated under the Securities Exchange Act of 1934) for the Registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the Registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The Registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the Registrant’s ability to record, process, summarize and report financial data and have identified for the Registrant’s auditors any material weaknesses in internal controls; 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; and

6) The Registrant’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 15, 2003

By: /s/ FLOYD E. WICKS

Floyd E. Wicks
Chief Executive Officer

CERTIFICATIONS

I, McClellan Harris III, Chief Financial Officer of the Registrant, certify that:

1) I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2003 (this “quarterly report”);

2) Based on my knowledge, this quarterly 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 quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4) The Registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Section 240.13a-14of the General Rules and Regulations promulgated under the Securities Exchange Act of 1934) for the Registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the Registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The Registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the Registrant’s ability to record, process, summarize and report financial data and have identified for the Registrant’s auditors any material weaknesses in internal controls; 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; and

6) The Registrant’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 15, 2003

By: /s/ McCLELLAN HARRIS III

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