

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

COMMISSION FILE NO.	REGISTRANT AND STATE OF INCORPORATION ADDRESS AND TELEPHONE NUMBER	IRS EMPLOYER IDENTIFICATION NO.
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333-47647	American States Water Company (A California corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	95-4676679
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000-01121	Southern California Water Company (A California corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	95-1243678
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Securities registered pursuant to Section 12(b) of the Act:

AMERICAN STATES WATER COMPANY COMMON SHARES, \$2.50 STATED VALUE	NEW YORK STOCK EXCHANGE
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Title of Each Class	Name of Each Exchange On Which Registered
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Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether Registrant 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 and has been subject to such filing requirements for the past 90 days.

American States Water Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Southern California Water Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the total voting stock held by non-affiliates of American States Water Company was approximately \$345,539,000 on March 1, 2002. The closing price per Common Share on that date, as quoted in the Western Edition of The Wall Street Journal, was \$34.35. Voting Preferred Shares of American States Water Company, for which there is no established market, were valued on March 1, 2002 at \$1,972,000 based on a yield of 4.16%. As of March 1, 2002, the number of Common Shares of American States Water Company, \$2.50 Stated Value, outstanding was 10,079,629. As of that same date, American States Water Company owned all 100 outstanding Common Shares of Southern California Water Company.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement will be subsequently filed with the Securities and Exchange Commission as to Part III, Item Nos. 10, 11, 12 and 13, in each case as specifically referenced herein.

AMERICAN STATES WATER COMPANY  
AND  
SOUTHERN CALIFORNIA WATER COMPANY

FORM 10-K

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## ITEM 1. BUSINESS

This annual report on Form 10-K is a combined report being filed by two separate Registrants: American States Water Company (hereinafter "AWR") and Southern California Water Company (hereinafter "SCW"). 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.

### GENERAL

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 31, 2001, compared with 11,063 customers at December 31, 2000. ASUS has approximately 90,000 accounts under contract.

### COMPETITION

The businesses of SCW and CCWC are substantially free from direct and indirect competition with other public utilities, municipalities and other public agencies. AWR's other subsidiary, ASUS, actively competes with other investor-owned utilities, other third party providers of water and wastewater services, and governmental entities on the basis of price and quality of service.

### EMPLOYEE RELATIONS

SCW had 481 employees as of December 31, 2001 as compared to 489 at December 31, 2000. Seventeen positions in SCW's Bear Valley Electric customer service area are covered by a collective bargaining agreement, which expires in 2002, with the International Brotherhood of Electrical Workers. Fifty-six positions in SCW's Region II ratemaking district are covered by a collective bargaining agreement, which expires in 2004, with the Utility Workers of America. SCW has no other unionized employees.

CCWC had 11 employees as of December 31, 2001, all of whom are non-unionized.

## ITEM 2 - PROPERTIES

### FRANCHISES AND CONDEMNATION OF PROPERTIES

SCW holds certificates of public convenience and necessity granted by the CPUC in each of the ratemaking districts it serves. CCWC holds certificates of public convenience and necessity granted by the ACC for the areas in which it serves. CCWC's certificates and similar rights are subject to alteration, suspension or repeal by the respective governmental authorities having jurisdiction. Both SCW and CCWC hold franchises, easements and rights of way pursuant to the terms of agreements that must periodically be renewed. These agreements are also subject to suspension or termination in certain circumstances if SCW or CCWC, as applicable, violate the terms of these agreements.

The laws of the State of California and the State of Arizona provide for the acquisition of public utility property by governmental agencies through the power of eminent domain, also known as condemnation. Registrant has not been, within the last three years, involved in activities related to the condemnation of any of its water customer service areas or in its Bear Valley Electric customer service area.

### ELECTRIC PROPERTIES

SCW's electric properties are all located in the Big Bear area of San Bernardino County in California. As of December 31, 2001, SCW operated 28.7 miles of overhead 34.5 kv transmission lines, 0.6 miles of underground 34.5 kv transmission lines, 173.6 miles of 4.16 kv or 2.4 kv distribution lines, 42.3 miles of underground cable and 14 sub-stations. Neither AWR nor any of its subsidiaries own electric generating plants.

### OFFICE BUILDINGS

Registrant's general offices are housed in a single-story office building located in San Dimas, California. The land and the building are owned by SCW. SCW also owns and occupies certain facilities housing regional, district and customer service offices while other such facilities are housed in leased premises. CCWC owns its primary office space.

## WATER PROPERTIES

As of December 31, 2001, SCW's physical properties consisted of water transmission and distribution systems which included 2,719 miles of pipeline together with services, meters and fire hydrants and approximately 430 parcels of land, generally less than 1 acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities, including five surface water treatment plants.

As of December 31, 2001, SCW owned 280 wells. Certain wells have been removed from service due to water quality problems. For further information, see the section entitled "Environmental Matters" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation. All wells are equipped with pumps with an aggregate capacity of approximately 203 million gallons per day. SCW has 57 connections to the water distribution facilities of the Metropolitan Water District of Southern California (MWD) and other municipal water agencies. SCW's storage reservoirs and tanks have an aggregate capacity of approximately 103 million gallons. SCW owns no dams in its customer service areas. The following table provides, in greater detail, selected water utility plant of SCW for each of its water ratemaking districts:

District	Pumps		Distribution Facilities			Reservoirs	
	Well	Booster	Mains	Services	Hydrants	Tanks	Capacity
Arden Cordova	27	15	485,152	14,106	1,196	3	4,000
Barstow	23	36	873,311	8,449	1,013	14	8,025
Bay Point	3	12	161,504	4,900	343	7	4,046
Calipatria	0	8	139,180	1,164	84	8	13,241
Claremont	24	32	714,370	10,663	1,185	15	8,082
Clearlake	0	13	194,298	2,087	75	4	883
Desert	17	20	760,707	3,278	590	11	1,475
Los Osos	11	9	201,528	3,204	169	8	1,422
Metro	71	75	4,926,733	98,816	8,005	32	23,940
Ojai	5	12	235,073	2,789	350	5	1,494
Orange	30	36	2,226,961	41,308	4,606	15	11,900
San Dimas	11	38	1,197,744	15,809	870	15	10,149
San Gabriel	18	8	549,437	11,813	791	3	1,520
Santa Maria	31	24	961,368	12,776	778	8	3,076
Simi	2	23	512,167	13,063	890	8	8,250
Wrightwood	7	5	217,263	2,574	81	7	1,546
Total	280	366	14,356,796	246,799	21,026	163	103,049

Capacity is measured in thousands of gallons. Mains are in feet.

As of December 31, 2001, CCWC's physical properties consisted of water transmission and distribution systems, which included 180 miles of pipeline, together with services, meters, fire hydrants, wells, reservoirs with a combined storage capacity of 7.05 million gallons and other water utility facilities including a surface water treatment plant, which treats water from the Central Arizona Project (CAP).

## MORTGAGE AND OTHER LIENS

As of December 31, 2001, SCW had no mortgage debt outstanding, and its properties were free of any encumbrances or liens securing indebtedness.

As of December 31, 2001, substantially all of the utility plant of CCWC was pledged to secure its Industrial Development Authority Bonds. The Bond Agreement, among other things, restricts CCWC's ability to incur debt and make liens, sell, lease or dispose of assets, or merge with another corporation, and pay dividends.

As of December 31, 2001, neither AWR nor ASUS had any mortgage debt or liens securing indebtedness outstanding.

## ITEM 3 - LEGAL PROCEEDINGS

### WATER QUALITY-RELATED LITIGATION

SCW is a defendant in twenty lawsuits involving claims pertaining to water quality. Seventeen 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: Adler v. Southern California Water Company, et al., Case No. BC169892, Santamaria v. Suburban Water Systems, et al., Case No. CIV180894, Georgianna v. Dominguez et al. v. Southern California Water Company, et al., Case No. G021657, 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. C028732, Adejare, et al. v. Southern California Water Company, 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 wells 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 trichloroethylene ("TCE"), perchloroethene ("PCE"), carbon tetrachloride and other solvents 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 is contaminated with a number of chemicals, including, TCE, PCE, 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 plaintiffs' claims, the lack of factual information regarding plaintiff's claims and injuries, if any, the impact of the California Supreme Court decision on plaintiffs' claims and the fact that no discovery has yet been completed, SCW is unable at this time to determine what, if any, potential liability it may have with respect to these claims. Based upon the information currently available to it, Registrant believes that these claims are without merit and intends to vigorously defend these claims.

SCW is subject to self-insured retention provisions in its applicable insurance policies and has either expended 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 Commission 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 regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements.

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. The CPUC has not yet authorized SCW to recover any of its litigation costs. As of December 31, 2001, SCW had recorded a net of \$888,700 in this memorandum account. Management believes that these expenses will be fully recovered but is unable to predict when, or if, the CPUC will authorize recovery of all or any of the costs.

#### OTHER WATER QUALITY LITIGATION

On October 25, 1999, SCW filed a lawsuit against the California Central Valley Regional Water Quality Control Board (CRWQCB) alleging that the CRWQCB has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is destroying the underground water supply in SCW's Rancho Cordova customer service area. Management cannot predict the likely outcome of this proceeding.

In a separate case, also filed on October 25, 1999, SCW sued Aerojet-General Corporation (Aerojet) for causing the contamination of the Sacramento County Groundwater Basin. On March 22, 2000, Aerojet filed a cross complaint against SCW for negligence and constituting a public nuisance. Registrant is unable to determine at this time what, if any, potential liability it may have with respect to the cross complaint, but intends to vigorously defend itself against these allegations. Management cannot predict the likely outcome of these proceedings.

The CPUC has authorized memorandum accounts to allow for recovery of costs incurred by SCW in prosecuting the suits filed against CRWQCB and Aerojet from customers, less any recovery from the defendants or others. As of December 31, 2001, approximately \$6,640,000 has been recorded in the memorandum accounts. The CPUC has authorized SCW to increase rates, effective April 28, 2001, for recovery over a six-year period of approximately \$1,800,000, in expenses that were incurred on or before August 31, 2000. SCW will continue to file additional Advice Letters to recover the remaining costs. Management believes these costs are recoverable but cannot give assurance that the CPUC will ultimately allow recovery of all or any of the remaining costs through rates.

On April 25, 2001, Registrant filed a lawsuit 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. MTBE contaminated water existing in areas of the basin from which SCW has pumped water through its Charnock Well Field. As a result, SCW ceased operation of its Charnock Well Field in October 1996. Registrant has reached an agreement in this matter that assigns the prosecution of litigation against the potentially responsible parties to the City of Santa Monica, California (Santa Monica). As part of the agreement and in exchange for an assignment payment, Santa Monica will prosecute the case against the potentially responsible parties. Registrant expects that Santa Monica will sign the agreement by the end of the first quarter of 2002.

#### 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. Subsequently Edison filed a cross-complaint against SCW for breach of contract, anticipatory breach, and quantum meruit. Registrant has discussed various settlement options with Edison regarding this matter. However, management cannot predict the likely outcome of this matter.

#### OTHER LITIGATION

Registrant is also subject to ordinary routine litigation incidental to its business. Other than as disclosed above, no legal proceedings are pending, except such incidental litigation, to which Registrant is a party or of which any of its properties is the subject, which are believed to be material. For further information, see Note 8 to the "Notes to Financial Statements in Part II, Item 8 in Financial Statements and Supplementary Data.

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

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

#### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

##### MARKET INFORMATION RELATING TO COMMON SHARES -

Common Shares of American States Water Company are traded on the New York Stock Exchange (NYSE) under the symbol AWR. The intra-day high and low NYSE prices on the Common Shares for each quarter during the past two years were:

	STOCK PRICES	
	HIGH	LOW
2001		
First Quarter	\$ 37.38	\$ 28.75
Second Quarter	34.00	28.50
Third Quarter	39.60	32.40
Fourth Quarter	38.00	32.20
2000		
First Quarter	\$ 36.25	\$ 26.00
Second Quarter	32.25	27.81
Third Quarter	31.75	25.00
Fourth Quarter	37.94	29.19

##### APPROXIMATE NUMBER OF HOLDERS OF COMMON SHARES -

As of February 22, 2002, there were 3,404 holders of record of Common Shares of American States Water Company. AWR owns all of the authorized and outstanding Common Shares of SCW, CCWC and ASUS.

##### FREQUENCY AND AMOUNT OF ANY DIVIDENDS DECLARED AND DIVIDEND RESTRICTIONS

For the last three years, Registrant has paid dividends on its Common Shares on March 1, June 1, September 1 and December 1. The following table lists the amount of dividends paid on Common Shares of American States Water Company for the last two years:

	2001	2000
	-----	-----
First Quarter	\$ 0.325	\$ 0.320
Second Quarter	0.325	0.320
Third Quarter	0.325	0.320
Fourth Quarter	0.325	0.325
	-----	-----
Total	\$ 1.300	\$ 1.285

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.

The ability of AWR, ASUS and SCW to pay dividends is also restricted by California law. Under restrictions of the California tests, approximately \$74.5 million, \$0 and \$72.7 million of retained earnings, respectively, for AWR, ASUS and SCW was available to pay dividends to Common Shareholders at December 31, 2001.

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. Under restrictions of the Arizona tests, approximately \$3.2 million was available to pay dividends to Common Shareholders at December 31, 2001.

For the year ended December 31, 2001, AWR paid \$13.2 million in common and preferred dividends to shareholders. For the year ended December 30, 2000, AWR paid \$12.3 million in common and preferred dividends to shareholders.

#### ITEM 6. SELECTED FINANCIAL DATA

(in thousands, except per share amounts and ratios)

	2001	2000	1999	1998	1997
	-----	-----	-----	-----	-----
<b>INCOME STATEMENT INFORMATION</b>					
Total Operating Revenues	\$197,514	\$183,960	\$173,421	\$148,060	\$153,755
Total Operating Expenses	160,822	151,653	144,907	122,999	130,297
Operating Income	36,692	32,307	28,514	25,061	23,458
Other Income (Loss)	(510)	(99)	532	769	758
Interest Charges	15,735	14,122	12,945	11,207	10,157
Net Income	20,447	18,086	16,101	14,623	14,059
Preferred Dividends	84	86	88	90	92
Earnings Available for Common Shareholders	\$20,363	\$18,000	\$16,013	\$14,533	\$13,967
Basic Earnings per Common Share	\$2.02	\$1.92	\$1.79	\$1.62	\$1.56
Dividends Declared per Common Share	\$1.30	\$1.29	\$1.28	\$1.26	\$1.25
Average Shares Outstanding	10,080	9,380	8,958	8,858	8,957
Average Number of Diluted Shares Outstanding	10,171	9,411	N/A	N/A	N/A
Fully Diluted Earnings per Common Share	\$2.00	\$1.91	N/A	N/A	N/A
<b>BALANCE SHEET INFORMATION</b>					
Total Assets	\$683,764	\$616,646	\$533,181	\$484,671	\$457,074
Common Shareholders' Equity	199,982	192,723	158,846	154,299	151,053
Long-Term Debt	245,692	176,452	167,363	120,809	115,286
Preferred Shares-Not Subject to Mandatory Redemption	1,600	1,600	1,600	1,600	1,600
Preferred Shares-Mandatory Redemption	280	320	360	400	440
Total Capitalization	\$447,554	\$371,095	\$328,169	\$277,108	\$268,379
Book Value per Common Share	\$19.84	\$19.12	\$17.73	\$17.23	\$16.86
<b>OTHER INFORMATION</b>					
Ratio of Earnings to Fixed Charges	3.26x	3.35x	3.27x	3.21x	3.35x
Ratio of Earnings to Total Fixed Charges	3.23x	3.31x	3.23x	3.17x	3.30x
Return on Average Common Equity	10.4%	10.5%	10.2%	9.6%	9.5%
Earnings Before Interest and Taxes	\$51,561	\$47,335	\$42,391	\$35,960	\$34,046
Earnings Before Interest, Taxes, Depreciation and Amortization	\$69,512	\$62,674	\$56,041	\$48,498	\$44,998

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Unless specifically noted, the following discussion and analysis provides information on AWR's consolidated operations and assets. For the twelve months ended December 31, 2001, there is generally no material difference between the consolidated operations and assets of AWR and the operations and assets of SCW. However, where necessary, the following discussion and analysis includes references specific to AWR's other subsidiaries - CCWC and ASUS.

#### 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, the California energy crisis, liquidity and capital resources, opportunities related to operations and maintenance of water systems owned by governmental entities and other utilities and providing related services, and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as utility restructuring, including ongoing local, state and federal activities; future economic conditions, including changes in customer demand and changes in water and energy supply cost; future climatic conditions; and legislative, regulatory and other circumstances affecting anticipated revenues and costs.

## RESULTS OF OPERATIONS

### YEARS ENDED DECEMBER 31, 2001 AND 2000

Basic earnings per common share in 2001 increased by 5.2% to \$2.02 per share as compared to \$1.92 per share for the comparable period of 2000. The increases in the recorded results primarily reflect the impact of various rate increases authorized by the Public Utilities Commission of the State of California (CPUC) for SCW, additional revenues generated by CCWC since the acquisition in October 2000, improvement in operating margins and, to some extent Registrant's Cash Preservation Plan (CPP) discussed below. For the year ended December 31, 2001, fully diluted earnings were \$2.00 per share as compared to \$1.91 per share for the comparable period of 2000. For further information, see the section entitled "Liquidity and Capital Resources" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Water operating revenues increased by 7.5% in 2001 to \$181.5 million from the \$168.8 million reported in 2000 due to increases in water rates authorized by the CPUC, and an additional \$6.3 million in revenues generated by CCWC. New rates, representing an annualized increase of \$3.1 million, in the customer service areas that comprise SCW's Region I were implemented during 2001. Rate increases, representing an annualized increase of \$2.9 million, for SCW's Region II and rate increases for SCW's Region III, representing an annualized increase of \$3.9 million, were also implemented at various times during 2001. The additional revenues generated by rate increases were partially offset by a 3.4% reduction in water sales throughout most of SCW's customer service areas in 2001 due to relatively mild weather. For further information, see the section entitled "Regulatory Matters" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Electric revenues increased by 6.3% to \$15.3 million in 2001 as compared to \$14.4 million in 2000. The increases reflected 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. The increases were partially offset by a decrease of 5.3% in kilowatt-hour consumption, primarily due to heavier winter snows experienced in SCW's service area in 2001, which decreased the use of snow making machines at ski resorts in the area. For further information, see the sections entitled "Regulatory Matters" and "Electric Energy Situation in California" in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Purchased water costs in 2001 decreased by 9.6% to \$37.6 million as compared to \$41.6 million in 2000 reflecting a decrease in purchased water volume resulting from both lower sales and less purchased water in Registrant's supply mix, as well as refunds received from Registrant's wholesale water suppliers during 2001 of approximately \$770,000. There was no similar refund in 2000. Purchased water expense at CCWC was approximately \$497,000.

Costs of power purchased for pumping increased by 27.7% to \$9.6 million in 2001 as compared to \$7.5 million recorded in 2000, due to the rate increases implemented by SCW's energy suppliers pursuant to CPUC decisions, and increased pumped water in SCW's supply mix. In 2001, the CPUC approved SCW's Advice Letters to increase revenues by approximately \$1.4 million annually to recover the costs of purchased power for its water ratemaking districts. For further information, see the sections entitled "Regulatory Matters" and "Electric Energy Situation in California" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation. During 2001, CCWC incurred approximately \$423,000 in power costs used for pumping.

In 2001, SCW's overall water supply mix improved over the mix authorized in rates due to additional well production capability coming on-line during the year. Changes in actual supply mix as compared to that authorized in rates can favorably or unfavorably impact earnings. There is no assurance that the favorable mix can be sustained in future periods since actual results are affected by availability and quality of water, both purchased and produced from

SCW's wells. For further information, see the section entitled "Water Supply" included in Part II, Item 7 in Management's 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 in 2001 increased by 84.1% to \$19.7 million from the \$10.7 million recorded in 2000 due primarily to significant increases in wholesale market prices for energy in the State of California. The increase was partially offset by a one-time sale of energy on the spot market that resulted in a \$644,000 gain in April 2001. The sale of excess energy on the spot market resulted from a one-month overlap of energy purchase agreements. For further information, see the sections entitled "Liquidity and Capital Resources", "Regulatory Matters" and "Electric Energy Situation in California" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Groundwater production assessments decreased by 9.3% to \$6.8 million in 2001 from \$7.5 million in 2000. The decrease occurred principally in SCW's San Gabriel and San Dimas customer service areas due to lower administrative assessments levied against production for the water year 2001 as compared with the previous year, and a credit of \$440,000 recorded in the fourth quarter of 2001 for the sale of groundwater in the Chino Basin. There was no such sale in 2000.

A positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. Conversely, a negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. The negative entries for 2001 primarily reflect untimely-recovery of electric power costs discussed previously. At December 31, 2001, Registrant had a net under-collected position of \$25.8 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 II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Other operating expenses increased by 3.0% in 2001 to \$17.2 million as compared with \$16.7 million in 2000 due primarily to operating expenses at CCWC, offset by the effects of the CPP at SCW that reduced or deferred a number of expense items.

Administrative and general expenses increased by 34.5% to \$35.1 million in 2001 from \$26.1 million recorded in 2000 reflecting (i) reserves of \$7.9 million established for potential non-recovery of electric power costs incurred to serve customers at SCW's Bear Valley Electric customer service area, (ii) increased reserves for self-insured worker's compensation liabilities, and (iii) additional costs from CCWC. The reserves were established to offset future impacts to earnings in the event that SCW was unable to fully recover all of its purchased power costs through rates. For further information, see the sections entitled "Regulatory Matters" and "Electric Energy Situation in California" in Part II, Item 7 in the Management's Discussion and Analysis of Financial Condition and Results of Operation and Note 7 of "Notes to Financial Statements" included in Part II, Item 8 in Financial Statements and Supplementary Data.

Depreciation expense in 2001 increased by 17.6% to \$18.0 million reflecting, among other things, the effects of recording approximately \$40.1 million in net plant additions at SCW during 2000, depreciation on which began in January 2001, and additional depreciation associated with CCWC's plant. In addition, amortization of goodwill, which represents the difference between the purchase price of the common equity of CCWC and CCWC's book equity at the time of closing, began October 2000. Pursuant to FASB No. 142, Goodwill and Other Intangible Assets, amortization of this goodwill, which was \$331,073 in 2001, will cease on January 1, 2002. AWR has concluded that this goodwill is not impaired.

As compared to 2000, maintenance expense decreased by 16.5% to \$8.6 million due primarily to the implementation of Registrant's CPP in April 2001 to control costs and temporarily to 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 pending CPUC approval of rate increases that would permit SCW to begin recovery of power costs incurred during California's energy crisis. The CPP impacted both the electric and water businesses of SCW. Management estimates that the CPP, through deferral of capital expenditures alone, reduced cash expenditures in 2001 by approximately \$20 million. The CPP will remain in effect until SCW receives approval to increase electric rates pursuant to the terms of a settlement agreement. For further information, see the sections entitled "Electric Energy Situation in California" and "Regulatory Matters" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Taxes on income increased slightly by 2.0% to \$15.4 million in 2001 as compared to \$15.1 million in 2000 due primarily to an approximately 9.1% increase in pre-tax operating income, the effect of which was partially offset by a lower effective tax rate.

Property and other tax expense increased by 7.0% in 2001 to \$7.6 million reflecting principally increased property taxes due to higher property valuation assessments, and additional property and payroll taxes at CCWC.

The loss recorded in other income for 2001 was due principally to the write-off of expenses associated with the termination of the acquisition of Peerless Water Co. The loss also reflects the effects of recording amortization and interest expenses, starting January 2000, on SCW's 500 acre-foot entitlement in the State Water Project (SWP). During the fourth quarter of 2001, SCW signed an agreement with a property developer requiring an assured water supply to complete construction of a development. Under the terms of this Agreement, the developer will reimburse SCW for the costs related to 350 acre-feet of SCW's SWP entitlement.

Interest expense increased by 11.3% in 2001 to \$15.7 million as compared to \$14.1 million recorded in 2000 due to (i) short-term borrowing to fund capital expenditures, (ii) the issuance of \$20 million in long-term debt by SCW in January 2001, (iii) the issuance of \$50 million in long-term debt by SCW in December 2001, and (iv) the inclusion of long-term debt at Registrant's CCWC unit.

#### YEARS ENDED DECEMBER 31, 2000 AND 1999

Basic earnings per common share in 2000 increased by 7.3% to \$1.92 per share as compared to \$1.79 per share for the comparable period of 1999. The increase in the recorded results primarily reflects higher revenues at SCW during 2000, as is more fully discussed below. For the year ended December 31, 2000, fully diluted earnings were \$1.91 per share. Registrant had no dilutive securities outstanding in 1999.

Water operating revenues increased by 5.7% in 2000 to \$168.8 million from the \$159.7 million reported in 1999. The increase was due to three factors (i) a 3.0% increase in water sales to customers of SCW, (ii) increased water rates authorized by the CPUC for certain of SCW's water customers, and (iii) additional sales from CCWC. New rates in four customer service areas and implementation of regional rates in the customer service areas that comprise SCW's Region III were effective June 27, 2000. Additional increases in 2000 reflected the general rate case step and attrition increases for a number of SCW's ratemaking areas effective 2000. For further information, see the section entitled "Regulatory Matters" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Electric operating revenues of \$14.4 million were 7.7% higher in 2000 as compared to 1999 due to a 6.8% increase in kilowatt-hour sales, primarily by residential and industrial customers.

Other revenues rose from \$390,000 in 1999 to \$799,000 in 2000 due to higher management fees from increased non-regulated activities.

Purchased water costs in 2000 increased by 15.2% to \$41.6 million as compared to \$36.1 million in 1999 due to a 9.6% increase in volumes purchased. The increase was also affected by a total of \$1.6 million in refunds from the Water Replenishment District of Southern California (WRD) received during 1999. There were no similar refunds received in 2000.

Costs of power purchased for resale to customers in SCW's Bear Valley Electric division in 2000 increased by 50.7% to \$10.7 million from the \$7.1 million recorded in 1999 due primarily to significant increases in wholesale market prices for energy in the state of California.

Costs of power purchased for pumping increased slightly by 1.6% to \$7.5 million in 2000 as compared to \$7.4 million recorded in 1999, chiefly as a result of an increase in energy costs, the effect of which was partially offset by a decrease in pumped groundwater in SCW's water supply mix.

Groundwater production assessments increased by 4.2% to \$7.5 million in 2000 from \$7.2 million in 1999 due primarily to increased costs for excess pumping in SCW's San Gabriel and San Dimas customer service areas to meet summer demands.

A negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. Conversely, a positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. SCW has a higher net under-collected position in 2000 than in 1999 reflecting the increased energy costs in SCW's Bear Valley electric service area, the aggregate effect of which was

partially offset by new water rates effective during 2000, authorized to collect previously incurred supply costs in SCW's various water customer service areas, as well as the WRD refunds during 1999 as discussed previously. For further information, see the sections entitled "Regulatory Matters" and "Accounting for Supply Costs" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Other operating expenses increased by 7.4% from the \$15.6 million recorded in 1999 reflecting increased costs for water treatment, and increased labor and billing costs due to additional billing and customer service contracts obtained by ASUS.

Administrative and general expenses decreased by 8.7% to \$26.1 million in 2000 from \$28.6 million recorded in 1999. The decrease is due primarily to booking reduced reserves for litigation in 2000 and a reduction in pension expenses. For further information, see Part I, Item 3 in Legal Proceedings.

Depreciation expense in 2000 increased by 11.7% to \$15.3 million reflecting the effects of recording approximately \$50 million in net plant additions during 1999, depreciation on which began in 2000.

Maintenance expense increased to \$10.3 million in 2000 compared to the recorded \$9.8 million in 1999 due principally to increased maintenance on SCW's water supply sources and maintenance of water mains.

Taxes on income increased by approximately 13.5% to \$15.1 million in 2000 as compared to the \$13.3 million in 1999 due primarily to a 15.2% increase in pre-tax income, the effect of which was partially offset by a slightly lower effective tax rate.

Property and other tax expense increased by 7.6% in 2000 to \$7.1 million due to higher property valuation, increased franchise fees associated with higher revenues, and increased payroll taxes due to increased labor costs.

The loss of \$99,000 in other income recorded for 2000 is related to the effect of recording amortization and interest expenses, starting January 2000, on SCW's entitlement in the State Water Project. For further information, see Note 8 of the "Notes to Financial Statements" included in Part II, Item 8 in Financial Statements and Supplementary Data.

In 2000, interest expense increased by 9.3% to \$14.1 million from the \$12.9 million recorded in 1999 due to additional short-term borrowing at higher rates incurred by SCW to temporarily fund its capital expenditures.

#### ACCOUNTING FOR SUPPLY COSTS

As permitted by the CPUC prior to November 29, 2001, SCW maintained water and electric supply balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Costs were 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 that works in a manner similar to the balancing account. As a result, the income statements of SCW will no longer include entries reflecting differences between actual unit water supply costs included in rates and actual water supply costs. SCW will not be entitled to recover any deferred costs for providing water service unless it is within its general rate case cycle and is earning less than its authorized rate of return on a weather normalized basis. 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 may not be able to 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 \$3.4 million in its water supply balancing account at December 31, 2001 compared to \$2.5 million and \$2.0 million at December 31, 2000 and December 31, 1999, respectively.

Electric power costs incurred by SCW's Bear Valley Electric division will continue to be charged to a balancing account pursuant to the methodology in effect prior to November 29, 2001. The amount of the under-collection in the electric balancing account has increased from \$2.8 million at December 31, 1999, to \$8.6 million at December 31, 2000 and \$22.4 million at December 31, 2001. Due to the nature of the regulatory process, there is a risk of disallowance of full recovery of costs or additional delays in the recovery of costs during any period in which there has been a substantial

run-up of costs. For further information, see the sections entitled "Regulatory Matters" and "Electric Energy Situation in California" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

#### LIQUIDITY AND CAPITAL RESOURCES

##### AWR

AWR funds its operating expenses and pays dividends on its outstanding Common and Preferred 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 December 31, 2001, 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 although AWR expects to enter into a new credit facility in the second quarter of 2002 in the amount of \$75 million.

##### 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, amortization of deferred charges and depreciation expense. Internal cash generation is influenced by factors such as weather patterns, environmental regulation, litigation, changes in 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 II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

SCW also relies on external sources, including equity investments 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. In January 2001, SCW issued \$20 million of long-term debt in a public offering with the proceeds used to reduce then outstanding bank borrowing. 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 borrowing incurred to fund capital expenditures and power purchase costs.

Because of the seasonal nature of its water and electric operations, SCW utilizes its short-term borrowing capacity to finance current operating expenses, including expenses for purchased power distributed through its Bear Valley Electric customer service area. SCW has short-term revolving credit lines totaling an aggregate of \$47 million. Of the aggregate amount, \$13 million expires in May 2002, \$10 million expires in July 2002 and \$24 million expires in August 2002. SCW does not intend to enter into any new short-term revolving credit lines in 2002.

##### 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.

#### 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.

The following table reflects Registrant's contractual obligations and commitments to make future payments pursuant to contracts as of December 31, 2001. 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)	20,820	87	285	218	20,231
Other Debt Instruments(5)	2,644	174	584	451	1,435
Bank Debt(6)	20,000	20,000	--	--	--
Preferred Shares(7)	1,920	1,920	--	--	--
Other Commitments(8)	50,072	--	--	--	--
Chaparral City Water Company(9)	9,388	499	1,684	620	6,585
TOTAL	\$318,444	\$22,680	\$15,053	\$1,289	\$229,351

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(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 and a negative pledge. For a further discussion of the dividend restrictions, see the sections entitled "Frequency and Amount of Any Dividends Declared and Dividend Restrictions" included in Part II, Item 5 in Market for Registrant's Common Equity and Related Stockholder Matters. 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 \$7 million of obligations incurred by SCW with respect to its 500 acre foot entitlement to water from the State Water Project. Except as described 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 Bank of America. SCW has reimbursement obligations to Bank of America that incorporate by reference SCW's obligations to Bank of America under its short-term revolving credit line with Bank of America discussed below in paragraph (6). The letter of credit expires on July 31, 2002. The letter of credit may be drawn if SCW has not obtained a replacement letter of credit prior to the expiration of this letter of credit. SCW has entered into an agreement with a developer for 350 acre-feet of its entitlement to water from the State Water Project. For further information, see the section entitled "Regulatory Matters-Disallowance of Costs" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

(5) Consists of \$1.6 million outstanding under a fixed rate obligation incurred to fund construction of water storage and delivery facilities with the Three Valleys Municipal Water District, \$0.6 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 \$20 million outstanding under a term loan facility for AWR that expired on January 2, 2002.

(7) AWR intends to redeem or repurchase all of its outstanding Preferred Shares during the first quarter of 2002.

(8) Other commitments consists of \$47 million available for borrowing by SCW at December 31, 2001 under short-term revolving credit loans \$13 million expiring in May 2002, \$10 million expiring in July 2002 and \$24 million expiring in July 2002, a \$2,513,813 irrevocable letter of credit that expires on April 30, 2002 for its self-insured workers

compensation plan, an amount of \$296,000 with respect to a \$6,296,000 irrevocable letter of credit issued by Bank of America to support the certificates of participation of Three Valleys Municipal Water District (the other \$6,000,000 is reflected under tax-exempt obligations) that expires on November 15, 2003, an irrevocable letter of credit in the amount of \$250,000 that expires on October 1, 2002 for the deductible in Registrant's business automobile insurance policy and outstanding performance bonds of \$12,500 to secure performance under franchise agreements with governmental agencies. None of these obligations contain any financial covenants believed to be material to Registrant or any cross default provisions.

(9) Consists of \$8.1 million of obligations under a loan agreement supporting Industrial Development Revenue Bonds due in 2006 and a \$1.3 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 is subject to change or withdrawal at any time by the rating agency.

## ELECTRIC ENERGY SITUATION IN CALIFORNIA

### BACKGROUND INFORMATION

The electric energy environment in California has changed as a result of the December 1995 CPUC decision on restructuring of California's electric utility industry and state legislation passed in 1996. On September 23, 1996, the State of California enacted legislation to provide a transition to a competitive market structure, which was expected to provide competition and customer choice, beginning January 1, 1998, with all consumers ultimately participating by 2002. SCW's Bear Valley electric customer service area was exempted by the CPUC from compliance with most of the provisions of the CPUC order and the state legislation.

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, and a dysfunctional power market.

Spot market prices dropped dramatically in the summer of 2001 and continue to remain low. A number of factors could, however, result in a substantial increase in spot market prices and the prices of long term contracts for power and capacity. The mitigation measures taken by FERC expire on September 30, 2002 despite the fact that there continues to be insufficient generation resources in California and throughout the West, transmission line constraints, constraints on natural gas pipeline capacity and a dysfunctional power market. In addition, the Cal ISO has proposed a number of market reforms, such as the imposition of an available capacity obligation ("ACAP") on all load-serving entities. The purpose of the ACAP obligation is to ensure that all load-serving entities have sufficient power resources to meet their maximum possible load. If an ACAP obligation of the type proposed by Cal ISO is adopted, SCW could be required to procure substantial additional power and capacity. The cost of procuring this additional power and capacity

could have a material adverse impact on SCW if SCW is not permitted to recover the costs of procuring this additional power and capacity from its ratepayers on a timely basis.

#### POWER SUPPLY ARRANGEMENTS

All electric energy sold by SCW to customers in its BVE customer service area is purchased from others. Historically, SCW purchased electric energy from the Southern California Edison unit of Edison International. However, in order to keep electric power costs as low as possible, SCW entered into an energy brokerage contract with Sempra Energy Corporation. SCW purchased electric energy for its BVE customer service area from Sempra during the period beginning March 26, 1996 through April 30, 1999.

In May 1999, SCW entered into a one-year block forward purchase contract with Illinova Energy Partners for 12 megawatts (Mw) of power at a price of \$28.00 per Mw hour (MWh). In May 2000, SCW entered into a one-year, block forward purchase contract with Dynegy Power Marketing, Inc. (DYPM) for 12 Mw of electric energy for its BVE customer service area at a price of \$35.50 per MWh. This contract expired April 30, 2001.

SCW entered into a five-year, block forward purchase contract with Mirant Marketing to supply its BVE customer service area with 15 Mw 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 Marketing under the terms of this contract due to the dysfunctional power market. Management is unable to predict what if any action FERC will take with respect to this complaint.

In June 2001, SCW executed an agreement with Pinnacle West Capital for an additional 8 Mw of electric energy to meet BVE's peak winter demands. The contract provides 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. The average minimum load at SCW's Bear Valley Electric customer service area has been approximately 12 Mw. The average winter load has been 18 Mw with a winter peak of 38 Mw when the snowmaking machines at the ski resorts are operating. Under the terms of a contract with DYPM that expires on April 30, 2002, DYPM has agreed to provide electric energy to SCW in excess of the amounts it has purchased under the forward block purchase contracts previously described, to sell excess energy purchased by SCW under the terms of these contracts, if requested by SCW, and to act as scheduling coordinator for SCW. However, SCW has entered into a separate agreement to have Automated Power Exchange, Inc. act as its scheduling coordinator and will not utilize the services of DYPM. SCW has withheld payment on \$3.4 million invoiced by DYPM for the period December 20, 2000 through February 20, 2001, pending resolution of certain disputes. Based on information available to it, Registrant expects the amount in dispute to increase due to additional amounts billed by DYPM.

#### 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. For further information, see Legal Proceedings in Part I for a discussion of litigation between Edison and SCW regarding Edison's obligations to upgrade these transmission facilities. In order to meet these increasing energy demands, SCW is considering a number of options including (i) the purchase of electric energy from on-site generation facilities installed by a third party, (ii) the use of portable generation, and (iii) the installation of generation owned by SCW. Each of these options may result in further increases in electric energy prices for customers of SCW's BVE customer service area.

#### CONSTRUCTION PROGRAM

SCW maintains an ongoing distribution main replacement program throughout its customer service areas, based on the priority of leaks detected, fire protection enhancement and a reflection of the underlying replacement schedule. In addition, SCW upgrades its electric and water supply facilities in accordance with industry standards, local requirements and CPUC requirements. SCW's Board of Directors has approved anticipated net capital expenditures of approximately \$55.4 million for 2002. Approved capital expenditures may be limited pending final CPUC approval of the settlement agreement regarding recovery of electric power costs at SCW's Bear Valley electric division. For further information, see the section entitled "Rate Matters-Changes in Rates" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.



CCWC has a net capital budget of \$1.4 million for 2002. 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.

## 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 all prudently incurred costs, including a return on rate base sufficient to pay principal and interest on debt securities, preferred stock distributions and a reasonable rate of return on equity. 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. Adjustments for purchased water and power are permitted in California, to a certain extent, but generally not Arizona. For further information, see the section entitled "Accounting for Supply Costs" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Neither AWR nor ASUS are 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.

The 22 customer service areas of SCW are grouped into 9 water districts and 1 electric district for ratemaking purposes. Water rates vary among the 9 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 electricity 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.

### CHANGES IN RATES

The following table lists information on estimated annual rate changes approved by the CPUC during 2001, 2000 and 1999.

(\$ in 000's)	Supply Cost	Balancing Account	General and Step	Advice	Total
Year	Offset	Amortization	Increases	Letters	
----	-----	-----	-----	-----	-----
2001	\$ 1,364	\$ 4,422	\$ 6,943	\$ 595	\$13,324
2000	--	(1,474)	6,973	1,040	6,539
1999	\$ 23	\$ 1,349	\$15,175	\$ 657	\$17,204

New water rates with an annual increase of approximately \$2.5 million for seven ratemaking districts in SCW's Region I were implemented in January 2001. SCW's application to combine the seven ratemaking customer service areas into one regional rate was, however, denied by the CPUC. Step increases of approximately \$1.7 million for the customer service areas in SCW's Region III were also effective in January 2001. An attrition increase of approximately \$2.8 million for Region II was in effect from February 2001.

As of December 31, 2001, SCW had accrued approximately \$22.4 million in under-collected purchased power costs included in the electric balancing account. In May 2000, SCW filed an Advice Letter with the CPUC for recovery over a five-year period of approximately \$2.4 million in under-collected power costs and removal of a negative amortization authorized by the CPUC in 1997. The CPUC issued a final order on May 24, 2001 authorizing an overall rate increase of 12.5%, with a condition of conducting a subsequent audit on the expenses included in the electric balancing account. The audit has been conducted and provided to the CPUC.

On August 23, 2001, the CPUC also approved a second Advice Letter filed by SCW on April 9, 2001 seeking recovery, over five years, of an additional under-collection of \$8.7 million for energy costs. Rates in SCW's BVE customer service area have increased by approximately 14.8% as a result.

On May 11, 2001, SCW filed with the CPUC for an additional increase in electric rates to recover energy costs under the purchase agreement with Mirant Marketing. SCW subsequently withdrew the Advice Letter and filed an application on August 17, 2001 with the CPUC, along with a motion requesting immediate recovery of these costs, subject to refund after completion of the review process. The CPUC rejected SCW's motion for immediate recovery.

On February 8, 2002, a settlement agreement among SCW, all intervening parties and the Office of Ratepayer Advocates ("ORA") was filed with the CPUC that will permit SCW to recover \$77 per MWh of purchased power costs through rates. SCW will only be allowed to include up to a weighted annual energy purchase cost of \$77 per MWh each year 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 will recover 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 will not be able to include these amounts in its balancing account and such amounts will be expensed against income. SCW has established approximately \$7.9 million in reserves as of December 31, 2001 against potential non-recovery of electric power costs. In addition, the settlement extended the previously approved surcharges for an additional five years to allow SCW an opportunity to collect amounts remaining in its electric cost balancing account. The proposed settlement also 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 Marketing due to the dysfunctional power market that existed at the time the agreement was signed. A final decision in this matter is expected during the second quarter of 2002. Management believes the CPUC will support the settlement agreement, but is unable to predict when or if the CPUC will authorize recovery of any or all of the costs agreed to in the settlement. For further information, see the sections entitled "Liquidity and Capital Resources" and "Electric Energy Situation in California" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

In March 2001, the CPUC approved SCW's Advice Letters to increase costs of purchased power incurred to pump water for its water customers by \$761,351 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 recently 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 entitled "Electric Energy Situation in California" included in Part II, Item 7 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 II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

#### DISALLOWANCE OF COSTS

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 allows SCW to include \$500,000 of the \$1.6 million in the regulated rate base, although 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 not anticipated until the second quarter of 2002.

On April 22, 1999, the CPUC issued an order denying SCW's application seeking approval of its recovery through rates of costs associated with its 500 acre-foot participation in the Coastal Aqueduct Extension of the State Water Project (SWP). SCW's participation in the SWP commits it to a 40-year entitlement. SCW's investment of approximately \$9.5 million in SWP is currently included in Other Property and Investments. The remaining balance of the related liability of approximately \$7 million is recorded as other long-term debt. In October 2001, SCW entered into an agreement with a developer, which obligates the developer to make payments to SCW in exchange for SCW's reservation and dedication of up to 350 acre-feet per year of the SWP entitlement for a five-year period. SCW intends to recover its remaining investment from other developers or through a sale of its remaining entitlement. SCW believes that its full investment and on-going costs associated with its ownership will be recovered.

#### OTHER REGULATORY MATTERS

In December 1999, Registrant agreed to acquire Peerless Water Co., a privately owned water company in Bellflower, California, subject to satisfaction of certain conditions, including CPUC approval. The transaction, however, was denied by the CPUC on November 29, 2001. As a result, the acquisition agreement with Peerless Water Co. has been terminated.

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 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. The new law allows the EPA to bypass the selection process and adopt interim regulations for contaminants in order to address urgent health threats. Current regulations, however, remain in place and are not subject to the new standard-setting provisions. The 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 or 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 will be authorized for recovery by the CPUC and ACC, as appropriate.

##### PROPOSED ENHANCED SURFACE WATER TREATMENT RULE

On July 29, 1994, the EPA proposed an Enhanced Surface Water Treatment Rule (ESWTR), which would require increased surface-water treatment to decrease the risk of microbial contamination. The EPA has proposed several versions of the ESWTR for promulgation. The version selected for promulgation will be determined based on data collected by certain

water suppliers and forwarded to the EPA pursuant to EPA's Information Collection Rule, which requires such water suppliers to monitor microbial and other contaminants in their water supplies and to conduct certain tests in respect of such contaminants. The EPA has adopted an Interim ESWTR applicable only to systems serving greater than 10,000 persons. On April 10, 2000, EPA published the proposed Long Term 1 Enhanced Surface Water Treatment Rule and Filter Backwash Rule (LT1FBR) in the Federal Register. This proposed rule will apply to each of SCW's five surface water treatment plants and the CCWC's surface water treatment plant. It basically extends the requirements of the ESWTR to systems serving less than 10,000 persons and will require some systems to institute changes to the return of recycled filter backwash flows within the treatment process to reduce the effects of recycled water on compromising microbial control. Registrant is presently unable to predict the ultimate impact of the LT1FBR, but it is anticipated that all plants will achieve compliance within the three year to five-year time frames identified by EPA.

#### REGULATION OF DISINFECTANT/DISINFECTION BY-PRODUCTS

SCW and CCWC are also subject to regulations concerning disinfectant/disinfection by-products (DBP's). Stage I of the regulations were effective in November 1998 with full compliance required by 2002. Stage I requires reduction of trihalomethane contaminants from 100 micrograms per liter to 80 micrograms per liter. Two of SCW's systems are immediately impacted by this rule. SCW implemented modifications to the treatment process in its Bay Point and Cordova systems. Both systems were in full compliance by the end of 2001. A third SCW plant will require treatment modifications in order to comply with this rule. SCW is conducting studies to determine the best treatment methods to comply with this rule.

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 expected in 2002.

#### 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 aquifer or have detected fecal indicators within the system's 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 in 2002. 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 their groundwater systems.

#### REGULATION OF RADON AND ARSENIC

The regulation on arsenic was published in January 2001 with a new federal standard of 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 three wells in CCWC's system. However, the EPA subsequently withdrew the pending arsenic standard for a sixty-day review to seek independent reviews of both the science behind the standard and of the cost estimates to communities of implementing the rule. On October 31, 2001, EPA announced that the arsenic standard in drinking water would be 10 parts per ppb. The effective date for utilities to comply with the standard will be January 2006. It is still not clear what will happen between now and the current effective date of the arsenic regulation of February 22, 2002. No further actions by EPA would simply make this regulation become effective as of that date.

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. It is our understanding that the United States Office of Management and Budget has sent the radon rule back to EPA for reconsideration. The final rule was expected to be effective in August 2000, but has been delayed. SCW and CCWC currently monitor their wells for radon in order to determine the best treatment appropriate for affected wells.

## VOLUNTARY EFFORTS TO EXCEED 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 exceed minimum operating requirements governing surface water treatment, optimize surface water treatment plant operations and ensure that its surface water treatment facilities are performing as efficiently as possible.

## FLUORIDATION OF WATER SUPPLIES

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

## AMMONIUM PERCHLORATE ACTION LEVEL ACTIVITIES

The California Department of Health Services (DOHS) recently reduced the action level for ammonium perchlorate. Although neither the EPA nor the DOHS have established a drinking water standard for ammonium perchlorate. In January 1997 DOHS established an action level of 18 parts per billion (ppb). Action levels are advisory in nature and are not enacted into law. In January 2002, SCW was informed that DOHS has reduced the action level from 18 ppb to a level of 4 ppb, based upon new reference dosage for health risk information from EPA. SCW has removed eight wells from service in four separate systems since they contained ammonium perchlorate in amounts in excess of this reduced action level. SCW is continuing to periodically monitor all its wells to determine that levels of perchlorate are below the action level currently in effect.

## MATTERS RELATING TO SCW'S ARDEN-CORDOVA SYSTEM

In January 1997, SCW was notified that ammonium perchlorate in amounts above the state-determined action level had been detected in three of its wells serving its Rancho-Cordova system. Aerojet-General Corp. has, in the past, used ammonium perchlorate in oxidizing rocket fuels. SCW took the three wells detected with ammonium perchlorate in excess of the 1997 action levels out of service. In April 1997, SCW found ammonium perchlorate in three additional wells and, at that time, removed those wells from service until it was determined that the levels were below the state-determined action level. Those wells were returned to service. SCW periodically monitors these wells to determine that levels of ammonium perchlorate are below the action level currently in effect. In January 2002, SCW was informed that DOHS was reducing the action level from 18 ppb to 4 ppb and subsequently removed three wells from service since they contained ammonium perchlorate in amounts in excess of this reduced action level.

In February 1998, SCW was informed that nitrosodimethylamine (NDMA) had been detected in amounts in excess of the EPA reference dosage for health risks in four of its wells in its Rancho-Cordova system. The wells have been removed from service. An additional well was also removed from service in September 1999 due to the contamination and another well was removed from service in January 2002. The DOHS established an initial action level of 2 parts per trillion (ppt). In February 2002, DOHS increased the action level to 10 ppt. Management is investigating the impact, if any, that the increase in the action level may have on its abilities to put certain wells back into service. NDMA is an additional by-product from the production of rocket fuel and it is believed that such contamination is related to the activities of Aerojet. 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 two new wells. As of December 31, 2001, Aerojet had previously reimbursed SCW \$4.5 million of the approximately \$17 million in costs SCW has incurred. The remainder of the costs is subject to further reimbursement, including interest. Reimbursements received from Aerojet will reduce SCW's utility plant and costs of 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 I, Item 3 in Legal Proceedings.

#### MATTERS RELATING TO SCW'S CULVER CITY SYSTEM

The compound, methyl tertiary butyl ether (MTBE), an oxygenate used in reformulated fuels, has been detected in the Charnock Basin, located in 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 system from service in October 1996 to help in efforts to avoid further spread of the MTBE contamination plume. Neither of these wells have 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.

Pursuant to an agreement with SCW in December 1998, two of the potentially responsible parties (the Participants) have reimbursed SCW's legal and consulting costs related to this matter and for increased costs incurred by SCW in purchasing replacement water. However, a notice of termination from the Participants to the settlement agreement was received in October 1999 claiming overpayments for replacement water in excess of SCW's water rights. No assurances can be given that future negotiations will result in complete restoration of SCW's water rights or that continued reimbursement of SCW's costs will be forthcoming.

#### MATTERS RELATING TO THE CHARNOCK BASIN

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 and Equilon Enterprises LLC to provide replacement drinking water to both SCW and the City of Santa Monica due to MTBE contamination of the Charnock Basin drinking water. The EPA has ordered Shell Oil to reimburse SCW for water replacement costs. The agencies are continuing to investigate the causes of MTBE pollution and intend to ensure that all responsible parties contribute to its clean up. SCW is unable to predict the outcome of the EPA's enforcement efforts.

On April 25, 2001, Registrant filed a lawsuit 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. MTBE polluted and contaminated water existed in areas of the basin from which SCW has pumped water through its Charnock Well Field. As a result, SCW ceased operation of its Charnock Well Field in October 1996. Registrant has reached an agreement in this matter that assigns the prosecution of litigation against the potentially responsible parties to the City of Santa Monica, California (Santa Monica). As part of the agreement and in exchange for an assignment payment, Santa Monica will prosecute the case against the potentially responsible parties. Registrant expects that Santa Monica will sign the agreement by the end of the first quarter of 2002. For further information, see section entitled "Other Water Quality Litigation" included in Part I, Item 3 in Legal Proceedings.

#### MATTERS RELATING TO SCW'S YORBA LINDA SYSTEM

The compound MTBE has been detected in three wells serving SCW's Yorba Linda system. Two of the wells are standby wells and the third well has not shown MTBE above the DOHS secondary standard of 5.0 ppb at this time. SCW has constructed an interconnection with the MWD to provide for additional supply 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, 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.

#### 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. Registrant has implemented a number of steps to address this concern, including the engagement of a security firm to develop further protection measures and an ongoing review of new industry and regulatory agency security measures. Although Registrant has not experienced any material increase in costs related to these measures, management is unable to predict what, if any, additional measures will be implemented and what such measures may cost. Registrant intends to seek recovery of any such

costs from the CPUC and the ACC. Management is unable to predict if these regulatory bodies will authorize recovery of any or all of these costs.

#### WATER SUPPLY

##### SCW'S WATER SUPPLY

During 2001, SCW supplied a total of 84,103,000 CCF of water. Of this amount, approximately 58.5% came from pumped sources and 39.6% was purchased from others, principally the MWD. The Bureau of Reclamation (the Bureau) supplied the remaining amount under a no-cost contract. During 2000, SCW supplied 87,439,000 CCF of water, 55.7% of which came from pumped sources, 42.4% was purchased, and the Bureau supplied the remainder.

SCW's water supply and revenues are significantly affected by changes in meteorological conditions. For the water year ending in September of 2001, California precipitation was at 75% of normal levels with the biggest deficits in Northern California. Southern California experienced only slightly less precipitation than normal, 92% for South Coast and 104% for Central Coast. In January of 2001 statewide reservoirs were at 107% of normal levels.

For 2002 statewide the numbers should be much the same albeit reversed with Northern California returning to normal precipitation levels and Southern California entering a slightly dryer and warmer weather pattern. Statewide from October to December precipitation was 130% of normal and reservoirs in January of 2002 were at 95% of normal. As of January 22, 2002, snow pack water content was 105% of average with the North at 110%, Central at 105%, and Southern California at 100%.

In the Pacific where the El Nino/Southern Oscillation (ENSO) is formed, near average, sea surface temperature (SST) conditions are predicted through March 2002, followed by slightly warmer than normal SST from mid-March through June. Should the SST warming trend continue, the later half of 2002 could see a mild El Nino effect with associated increases in precipitation for areas of the Southwestern part of the United States.

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 I, Item 3 in Legal Proceedings.

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 57 connections to the water distribution facilities of MWD and other municipal water agencies. MWD imports water from two principal sources: the Colorado River and the State Water Project (SWP). Available water supplies from the Colorado River and the SWP have historically been sufficient to meet most of MWD's requirements and MWD's supplies from these sources are anticipated to remain adequate through 2002. MWD's import of water from the Colorado River is expected to decrease in future years due to the requirements of the Central Arizona Project (CAP). In response, MWD has taken a number of steps to secure additional storage capacity and to increase available water supplies, by effecting transfers of water rights from other sources. Foremost among the safeguards is Diamond Valley Reservoir, a reservoir in southwest Riverside County. Capable of holding 800,000 acre-feet (AF) or 269 billion gallons, the reservoir is currently more than half full.

##### CCWC'S WATER SUPPLY

The Colorado River flow has been low. For the 2001 water year 6,929,200 AF of water flowed into Lake Powell from the Colorado River, which is only 52% of normal. However the Lake itself is currently at 75% of capacity, which is 95% of normal for the end of December 2001. If the SST warming trend continues, it is likely that precipitation will return to normal levels over the 2002 water year. In December 2001 there was 279,700 AF of water flow into Lake Powell from the Colorado River, which is 75% of average. The snow pack water content in the upper Colorado River Basin was 70% of normal as of January 31, 2002. The National Weather service expects that normal seasonal rain and snow should gradually improve water supply in Registrant's water service areas.

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.

#### BUSINESS SEGMENTS

AWR currently has three principal business units: water service and electric distribution utility operations conducted through its SCW subsidiary, water service utility operations conducted through its CCWC subsidiary, and non-utility activities conducted through its ASUS subsidiary. All activities of SCW currently are geographically located within the State of California. All activities of CCWC are located in the state of Arizona. All activities of ASUS are conducted in California and 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. For further information, see Note 11 to the "Notes to Financial Statements" included in Part II, Item 8 in Financial Statements and Supplementary Data.

#### 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 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. As of December 31, 2001, SCW had accrued \$22.4 million in unrecovered power costs in its electric balancing accounts. FERC mitigation measures are expected to expire on September 30, 2002. In addition, Cal ISO has proposed a number of market reforms that could require SCW to procure substantial additional power and/or capacity. This could result in an increase in the level and volatility of electric prices in California.

We have been funding these power costs from our short-term borrowing facilities. In addition, in April 2001, the Company implemented a Cash Preservation Plan to control costs and temporarily to limit capital and maintenance expenditures. SCW has filed Advice Letters to recover the under-collection of power costs in its water and electric balancing accounts and intends to continue to do so until such time as its actual power costs are being fully recovered in rates. However, due to the nature of the regulatory process, there is a risk of disallowance of full recovery of supply costs during any period in which there has been a substantial run-up in these costs. Any material disallowance of purchased power costs could have a material adverse impact on cash flow and earnings. In addition, we believe that timely action by the CPUC to authorize the recovery of these costs is necessary to avoid a material adverse effect on SCW's financial condition. Delays in obtaining regulatory approval or disallowance of recovery of costs could also affect SCW's ability to pay dividends to AWR. AWR's ability to pay dividends on its Common Shares is dependent upon the payment of dividends by SCW.

We have reached a settlement with the CPUC Staff and all other intervening parties that would authorize us to included \$0.077 per kilowatt-hour (KWh) in rates to recover our electric power costs. 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. We are unable to predict if the CPUC will approve the settlement and, if the settlement is approved, whether or not the CPUC will implement new rates.

The Company has established approximately \$7.9 million in reserves for its Bear Valley Electric division for possible non-recovery of power costs included in the electricity supply cost balancing accounts.



CHANGES IN WATER SUPPLY COSTS, EITHER UNIT COST CHANGE OR SUPPLY MIX CHANGE, WILL DIRECTLY IMPACT THE COMPANY'S EARNINGS.

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. 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.

On November 29, 2001, the CPUC ordered SCW to suspend the use of all 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. We may recover certain water supply costs based on the memorandum account if we are within our rate case cycle and we are not earning an amount in excess of our authorized rate of return. SCW may not otherwise recover increased costs due to increased unit cost. Additionally, changes in water supply costs compared to the authorized amount, as well as any future authorized offset increases may directly affect our earnings.

SIGNIFICANT CLAIMS HAVE BEEN ASSERTED AGAINST US IN WATER QUALITY LITIGATION.

SCW and others have been sued in twenty water quality related lawsuits alleging personal injury and property damage as a result of the delivery of water that was allegedly contaminated. Seventeen of the lawsuits involve plaintiffs who received water from the San Gabriel Basin 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 the CPUC has jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; that DOHS requirements governing drinking water quality adequately protect the public health and safety; and that 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 be sued for damages based on allegations 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.

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 alternatives 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.

Certain government officials have suggested 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 in other service areas. Currently, neither the Environmental Protection Agency nor any other governmental agency has identified the Company or, to our knowledge, any other water producer, as a potentially responsible party. We cannot assure you, however, that SCW or CCWC will not be identified as a potentially responsible party in the future. 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.

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 will affect SCW's five surface water treatment plants and one CCWC plant
- Additional regulation of disinfection/disinfection byproducts expected to be adopted before the end of 2002; these regulations will potentially affect two of SCW's systems
- Additional regulations expected to be adopted requiring disinfection of certain groundwater systems
- Currently pending regulation of arsenic and radon
- California customer requirements to fluoridate public water systems serving over 10,000 customers
- Reduction in the action level for ammonium perchlorate to 4 ppb in 2002; we have removed 8 wells from service due to the presence ammonium perchlorate above action levels.

SCW and CCWC may be able to recover costs incurred to comply with these regulations through the ratemaking process for their regulated systems. 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.

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
- The amount of water used by our customers and others
- Water quality, and
- 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"). 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 under the terms of our contractual agreements with municipalities. In certain circumstances, we may recover 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.

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. In April 1999, the CPUC denied our request to recover through rates the costs associated with our participation in the Coastal Aqueduct Extension of the State Water Project. We also have an application pending before the CPUC to include an additional \$1.6 million in rate base for a water treatment plant in SCW's Clearlake service area that was previously disallowed by the CPUC in 1993. In addition, we have an application pending to recover our current energy costs.

We have been adversely affected by electric restructuring in California and the escalation of energy costs attributable thereto. The California Department of Water Resources has attempted to alleviate the crisis by purchasing electricity for Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas and Electric Company, but does not purchase any electricity for our Bear Valley electric division. FERC has taken certain actions intended to stabilize the energy market in the West. These mitigation measures expire on September 30, 2002. Registrant is unable to predict what impact the expiration of these measures will have on electric prices.

Cal ISO expects to propose additional market reforms that may substantially increase the costs of SCW. This could have a material adverse impact on SCW if SCW is unable to recover these increased costs from its ratepayers.

SCW has filed a complaint with FERC seeking a reduction of the rates in its power purchase contract with Mirant Marketing to a just and reasonable price. Registrant is unable to predict the outcome of this proceeding. SCW has also filed an Advice Letter with the CPUC seeking to recover the costs of its power supply costs previously incurred and expected to be incurred under its contracts with Mirant Marketing and Pinnacle West Capital. SCW has reached a settlement regarding the recovery of a substantial portion of these costs. This settlement has not yet been approved by the CPUC.

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 2001, 2000 and 1999, we spent \$50,253,000, \$45,982,000, and \$51,578,000, respectively, for these purposes. Our budgeted capital expenditures for calendar year 2002 for these purposes are approximately \$56,774,000.

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. We maintain bank lines of credit 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 remain profitable.

#### ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141

eliminates the pooling-of-interests method of accounting, effective June 30, 2001. After that, all business combinations will be recorded under the purchased method of accounting (record goodwill for excess of costs over the net assets acquired). SFAS No. 142 requires that companies cease amortizing goodwill, effective January 1, 2002. Goodwill initially recognized after June 30, 2001, will not be amortized. Goodwill on the balance sheet at June 30, 2001 will be amortized until January 1, 2002. Under SFAS No. 142, goodwill will be tested for impairment using a fair-value approach when events or circumstances occur indicating that impairment might exist. A benchmark assessment for goodwill is also required within six months of the date of adoption of SFAS No. 142. Registrant has determined that goodwill, \$12,285,000 at December 31, 2001, associated with its acquisition of CCWC is not impaired and effective January 1, 2002 has ceased amortizing this goodwill. In 2001, \$331,073 was amortized against the goodwill.

In June of 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations," on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. SFAS 143 is effective for fiscal years beginning after June 15, 2002. Registrant believes that adoption of this statement will not have a significant impact on its financial position or results of operation.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. Registrant is assessing the impact on future financial reporting related to both past and future transactions, but believes that adoption of this statement will not have a significant impact on its financial position or results of operation.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Registrant has no derivative financial instruments, financial instruments with significant off-balance sheet risks or financial instruments with concentrations of credit risk except for the block-forward purchase power contracts that meet the normal purchase exception rule under FASB 133, "Accounting for Derivative Instruments and Hedging Activities." Under the terms of its power purchase contracts with Mirant Marketing and Pinnacle West Capital, SCW is required to post security, at the request of the seller, if SCW is in default under the terms of the contract. For further information, see the section entitled "Contractual Obligations and Other Commitments" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

American States Water Company

Consolidated Balance Sheets - December 31, 2001 and 2000

Consolidated Statements of Capitalization - December 31, 2001  
and 2000

Consolidated Statements of Income - for the years ended December  
31, 2001, 2000 and 1999

Consolidated Statements of Changes in Common Shareholders'  
Equity - for the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows - for the years ended  
December 31, 2001, 2000 and 1999

Southern California Water Company

Balance Sheets - December 31, 2001 and 2000

Statements of Capitalization - December 31, 2001 and 2000

Statements of Income - for the years ended December 31, 2001,  
2000 and 1999

Statements of Changes in Common Shareholders' Equity - for the  
years ended December 31, 2001, 2000 and 1999

Statements of Cash Flows - for the years ended December 31,  
2001, 2000 and 1999

Notes to Financial Statements

Report of Management

Report of Independent Public Accountants

AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

(in thousands)	December 31, 2001	2000
	-----	-----
ASSETS		
UTILITY PLANT, AT COST		
Water	\$ 645,185	\$ 608,032
Electric	38,525	37,630
	-----	-----
Less - Accumulated depreciation	683,710	645,662
	(190,656)	(173,367)
	-----	-----
Construction work in progress	493,054	472,295
	46,788	36,801
	-----	-----
Net utility plant	539,842	509,096
	-----	-----
OTHER PROPERTY AND INVESTMENTS	24,104	25,222
CURRENT ASSETS		
Cash and cash equivalents	30,496	5,808
Accounts receivable-Customers, less reserves of \$972 in 2001; \$510 in 2000	10,557	10,481
Other account receivable	5,306	5,233
Unbilled revenue	12,141	11,363
Materials and supplies, at average cost	970	1,116
Supply cost balancing accounts	25,826	11,145
Prepayments	2,493	4,085
Accumulated deferred income taxes - net	--	3,249
	-----	-----
Total current assets	87,789	52,480
	-----	-----
DEFERRED CHARGES		
Unamortized debt expense and redemption premium	7,540	7,190
Regulatory tax-related assets	15,843	17,705
Other	8,646	4,953
	-----	-----
Total deferred charges	32,029	29,848
	-----	-----
TOTAL ASSETS	\$ 683,764	\$ 616,646
	=====	=====

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

(in thousands)	December 31,	
	2001	2000
	-----	-----
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shareholders' equity	\$199,982	\$192,723
Preferred Shares	1,600	1,600
Preferred Shares - mandatory redemption	280	320
Long-term debt	245,692	176,452
	-----	-----
Total capitalization	447,554	371,095
	-----	-----
CURRENT LIABILITIES		
Notes payable to banks	20,000	45,000
Long-term debt and Preferred Shares - current	800	735
Accounts payable	13,931	11,857
Taxes payable	5,389	5,585
Accrued interest	1,945	1,783
Other	21,571	15,257
	-----	-----
Total current liabilities	63,636	80,217
	-----	-----
OTHER CREDITS		
Advances for construction	69,436	69,230
Contributions in aid of construction	43,723	39,670
Accumulated deferred income taxes - net	53,444	51,131
Unamortized investment tax credits	2,882	3,156
Regulatory tax-related liability	1,773	1,817
Other	1,316	330
	-----	-----
Total other credits	172,574	165,334
	-----	-----
TOTAL CAPITALIZATION AND LIABILITIES	\$683,764	\$616,646
	=====	=====

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF CAPITALIZATION

(In thousands)	December 31,	
	2001	2000
	-----	-----
COMMON SHAREHOLDERS' EQUITY:		
Common Shares, no par value, \$2.50 stated value		
Authorized 30,000,000 shares		
Outstanding 10,079,629 in 2001 and 10,079,629 in 2000	\$ 25,199	\$ 25,199
Additional paid-in capital	100,239	100,239
Earnings reinvested in the business	74,544	67,285
	-----	-----
	199,982	192,723
	-----	-----
PREFERRED SHARES: \$25 PAR VALUE		
Authorized 64,000 shares		
Outstanding 32,000 shares, 4% Series	800	800
Outstanding 32,000 shares, 4 1/4% Series	800	800
	-----	-----
	1,600	1,600
	-----	-----
PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION: \$25 PAR VALUE, 5% SERIES		
Authorized and outstanding 12,800 shares in 2001 and 14,400 shares in 2000	320	360
Less: Preferred Shares to be redeemed within one year	(40)	(40)
	-----	-----
	280	320
	-----	-----
LONG-TERM DEBT		
Notes/Debentures:		
5.82% notes due 2003	12,500	12,500
6.64% notes due 2013	1,100	1,100
6.80% notes due 2013	2,000	2,000
6.87% notes due 2023	5,000	5,000
7.00% notes due 2023	10,000	10,000
7.55% notes due 2025	8,000	8,000
7.65% notes due 2025	22,000	22,000
6.81% notes due 2028	15,000	15,000
6.59% notes due 2029	40,000	40,000
7.875% notes due 2030	20,000	--
7.23% notes due 2031	50,000	--
Private Placement Notes:		
9.56% notes due 2031	28,000	28,000
Tax-Exempt Obligations:		
5.50% notes due 2026	7,950	7,950
Variable rate obligation due 2014	6,000	6,000
State Water Project due 2035	6,870	6,949
Other Debt Instruments:		
8.50% fixed rate obligation due 2013	1,630	1,714
Variable rate obligation due 2018	589	622
Capital Lease Obligations	425	462
Chaparral City Water Company:		
4% to 4.85% serial bonds due 2007	1,295	1,480
5.20% term bonds due 2011	1,000	1,000
5.40% term bonds due 2022	4,610	4,610
4.65% term bonds due 2006	185	215
5.30% term bonds due 2022	1,015	1,015
3.34% repayment contract due 2006	1,283	1,530
	-----	-----
	246,452	177,147
	-----	-----
Less: Current maturities	(760)	(695)
	-----	-----
	245,692	176,452
	-----	-----
TOTAL CAPITALIZATION	\$ 447,554	\$ 371,095
	=====	=====

The accompanying notes are an integral part of these financial statements



## AMERICAN STATES WATER COMPANY

## CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)	For the years ended December 31,		
	2001	2000	1999
	-----	-----	-----
OPERATING REVENUES			
Water	\$ 181,474	\$ 168,795	\$ 159,693
Electric	15,251	14,366	13,338
Other	789	799	390
	-----	-----	-----
Total operating revenues	197,514	183,960	173,421
	-----	-----	-----
OPERATING EXPENSES			
Water purchased	37,609	41,592	36,143
Power purchased for resale	19,662	10,664	7,119
Power purchased for pumping	9,592	7,509	7,394
Groundwater production assessment	6,847	7,489	7,170
Supply cost balancing accounts	(14,681)	(6,371)	(473)
Other operating expenses	17,162	16,748	15,594
Administrative and general expenses	35,108	26,135	28,600
Depreciation	17,951	15,339	13,650
Maintenance	8,640	10,280	9,799
Taxes on income	15,379	15,127	13,345
Property and other taxes	7,553	7,141	6,566
	-----	-----	-----
Total operating expenses	160,822	151,653	144,907
	-----	-----	-----
OPERATING INCOME	36,692	32,307	28,514
	-----	-----	-----
OTHER INCOME			
Total other income - net	(510)	(99)	532
	-----	-----	-----
Income before interest charges	36,182	32,208	29,046
	-----	-----	-----
INTEREST CHARGES			
Interest on long-term debt	13,497	11,623	11,294
Other interest and amortization of debt expense	2,238	2,499	1,651
	-----	-----	-----
Total interest charges	15,735	14,122	12,945
	-----	-----	-----
NET INCOME	20,447	18,086	16,101
Dividends on Preferred Shares	(84)	(86)	(88)
	-----	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS	\$ 20,363	\$ 18,000	\$ 16,013
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	10,080	9,380	8,958
BASIC EARNINGS PER COMMON SHARE	\$ 2.02	\$ 1.92	\$ 1.79
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES OUTSTANDING	10,171	9,411	N/A
FULLY DILUTED EARNINGS PER COMMON SHARE	\$ 2.00	\$ 1.91	N/A
DIVIDENDS DECLARED PER COMMON SHARE	\$ 1.30	\$ 1.285	\$ 1.28

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

(in thousands)	Common Shares		Additional Paid-in Capital	Earnings Reinvested in the Business
	Number of Shares	Amount		
BALANCES AT DECEMBER 31, 1998	8,958	\$ 22,394	\$ 74,937	\$ 56,968
Add:				
Net Income				16,101
Deduct:				
Dividends on Preferred Shares				88
Dividends on Common Shares - \$1.28 per share				11,466
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 1999	8,958	\$ 22,394	\$ 74,937	\$ 61,515
Add:				
Net Income				18,086
Issuance of Common Shares for public offering	1,107	2,768	24,924	
Issuance of Common Shares, others	15	37	378	
Deduct:				
Dividends on Preferred Shares				86
Dividends on Common Shares - \$1.28 per share				8,954
Dividends on Common Shares - \$1.285 per share				3,276
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 2000	10,080	\$ 25,199	\$100,239	\$ 67,285
Add:				
Net Income				20,447
Deduct:				
Dividends on Preferred Shares				84
Dividends on Common Shares - \$1.30 per share				13,104
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 2001	10,080	\$ 25,199	\$100,239	\$ 74,544
	=====	=====	=====	=====

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

AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the years ended December 31,		
	2001	2000	1999
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 20,447	\$ 18,086	\$ 16,101
Adjustments for non-cash items:			
Depreciation and amortization	17,951	15,339	14,364
Deferred income taxes and investment tax credits	7,106	5,848	2,440
Other - net	(383)	(1,043)	1,066
Changes in assets and liabilities:			
Customer receivables	(76)	(616)	(1,555)
Prepayments	1,592	915	1,037
Supply cost balancing accounts	(14,681)	(6,371)	(474)
Accounts payable	2,074	(2,567)	3,559
Taxes payable	(196)	153	(468)
Unbilled revenue	(778)	(18)	(2,042)
Accrued Interest	162	199	179
Other - net	6,387	862	4,803
	-----	-----	-----
Net cash provided	39,605	30,787	39,010
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Construction expenditures	(48,149)	(45,758)	(57,823)
Acquisition of Chaparral City Water Company Stock	--	(18,484)	--
Acquisition of Water Rights	--	(1,653)	--
	-----	-----	-----
Net cash used	(48,149)	(65,895)	(57,823)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of Securities	70,000	28,107	47,028
Receipt of advances for and contributions in aid of construction	6,841	2,512	5,300
Refunds on advances for construction	(4,686)	(2,961)	(2,957)
Retirement or repayments of long-term debt and redemption of Preferred Shares -- net	(735)	(616)	(435)
Net change in notes payable to banks	(25,000)	24,000	(17,000)
Common and preferred dividends paid	(13,188)	(12,315)	(11,554)
	-----	-----	-----
Net cash provided	33,232	38,727	20,382
	-----	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,688	3,619	1,569
Cash and Cash Equivalents, Beginning of Year	5,808	2,189	620
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 30,496	\$ 5,808	\$ 2,189
	-----	-----	-----
TAXES AND INTEREST PAID:			
Income taxes paid	\$ 7,089	\$ 9,430	\$ 12,137
Interest paid	\$ 15,634	\$ 14,379	\$ 11,834
	-----	-----	-----
NON-CASH TRANSACTIONS:			
Property installed by developers and conveyed to Company	\$ 2,104	\$ 2,570	\$ 4,096
Assumption of Chaparral's long-term debt and non-current portion of Customer Deposit	N/A	\$ 11,425	N/A
	=====	=====	=====

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

## SOUTHERN CALIFORNIA WATER COMPANY

## BALANCE SHEETS

(in thousands)	December 31,	
	2001	2000
	-----	-----
ASSETS		
UTILITY PLANT, AT COST		
Water	\$ 607,988	\$ 570,836
Electric	38,525	37,630
	-----	-----
	646,513	608,466
Less - Accumulated depreciation	(181,371)	(165,002)
	-----	-----
	465,142	443,464
Construction work in progress	46,042	36,605
	-----	-----
Net utility plant	511,184	480,069
	-----	-----
OTHER PROPERTY AND INVESTMENTS	9,446	9,711
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	26,079	1,545
Accounts receivable-Customers, less reserves of \$951 in 2001; \$498 in 2000	10,228	10,071
Other	5,202	5,097
Inter-company receivable	--	376
Unbilled revenue	11,940	11,363
Materials and supplies, at average cost	883	1,039
Supply cost balancing accounts	25,826	11,145
Prepayments	2,310	3,756
Accumulated deferred income taxes - net	--	3,256
	-----	-----
Total current assets	82,468	47,648
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets	15,843	17,705
Other	15,433	11,396
	-----	-----
Total deferred charges	31,276	29,101
	-----	-----
TOTAL ASSETS	\$ 634,374	\$ 566,529
	=====	=====

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

BALANCE SHEETS

(in thousands)	December 31, 2001	2000
	-----	-----
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION</b>		
Common shareholders' equity	\$196,107	\$164,808
Long-term debt	236,804	167,062
	-----	-----
Total capitalization	432,911	331,870
	-----	-----
<b>CURRENT LIABILITIES</b>		
Notes payable to banks	--	45,000
Long-term debt and preferred shares - current	300	275
Accounts payable	13,548	11,203
Inter-company payable	26	4,746
Taxes payable	5,599	5,675
Accrued interest	1,877	1,722
Other	21,320	13,512
	-----	-----
Total current liabilities	42,670	82,133
	-----	-----
<b>OTHER CREDITS</b>		
Advances for construction	58,570	58,195
Contributions in aid of construction	43,493	39,642
Accumulated deferred income taxes - net	52,075	49,569
Unamortized investment tax credits	2,882	2,973
Regulatory tax-related liability	1,773	1,817
Other	--	330
	-----	-----
Total other credits	158,793	152,526
	-----	-----
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$634,374</b>	<b>\$566,529</b>
	=====	=====

The accompanying notes are an integral part of these financial statements

## SOUTHERN CALIFORNIA WATER COMPANY

## STATEMENTS OF CAPITALIZATION

(in thousands)	December 31,	
	2001	2000
	-----	-----
COMMON SHAREHOLDERS' EQUITY:		
Common shares, no par value		
Outstanding 100 in 2000 and 110 in 2001	\$ 123,391	\$ 98,391
Earnings reinvested in the business	72,716	66,417
	-----	-----
	196,107	164,808
	-----	-----
LONG-TERM DEBT		
Notes/Debentures:		
5.82% notes due 2003	12,500	12,500
6.64% notes due 2013	1,100	1,100
6.80% notes due 2013	2,000	2,000
6.87% notes due 2023	5,000	5,000
7.00% notes due 2023	10,000	10,000
7.55% notes due 2025	8,000	8,000
7.65% notes due 2025	22,000	22,000
6.81% notes due 2028	15,000	15,000
6.59% notes due 2029	40,000	40,000
7.875% notes due 2030	20,000	--
7.23% notes due 2031	50,000	--
Private Placement Notes:		
9.56% notes due 2031	28,000	28,000
Tax-Exempt Obligations:		
5.50% notes due 2026	7,950	7,950
Variable rate obligation due 2014	6,000	6,000
State Water Project due 2035	6,870	6,949
Other Debt Instruments:		
8.50% fixed rate obligation due 2013	1,630	1,714
Variable rate obligation due 2018	589	622
Capital Lease Obligations	425	462
	-----	-----
	237,064	167,297
Less: Current maturities	(260)	(235)
	-----	-----
	236,804	167,062
	-----	-----
TOTAL CAPITALIZATION	\$ 432,911	\$ 331,870
	=====	=====

The accompanying notes are an integral part of these financial statements

## SOUTHERN CALIFORNIA WATER COMPANY

## STATEMENTS OF INCOME

(\$ in thousand, except per share amounts)	For the years ended December 31,		
	2001	2000	1999
	-----	-----	-----
OPERATING REVENUES			
Water	\$ 175,204	\$ 167,529	\$ 159,693
Electric	15,251	14,366	13,338
	-----	-----	-----
Total operating revenues	190,455	181,895	173,031
	-----	-----	-----
OPERATING EXPENSES			
Water purchased	37,112	41,450	36,145
Power purchased for resale	19,662	10,664	7,119
Power purchased for pumping	9,169	7,442	7,394
Groundwater production assessment	6,847	7,489	7,170
Supply cost balancing accounts	(14,681)	(6,371)	(473)
Other operating expenses	16,111	16,306	15,475
Administrative and general expenses	33,929	25,545	28,077
Depreciation	16,710	15,086	13,516
Maintenance	8,411	10,191	9,794
Taxes on income	15,066	14,881	13,473
Property and other taxes	7,089	7,037	6,563
	-----	-----	-----
Total operating expenses	155,425	149,720	144,253
	-----	-----	-----
OPERATING INCOME	35,030	32,175	28,778
	-----	-----	-----
OTHER INCOME			
Total other income - net	(624)	(140)	509
	-----	-----	-----
Income before interest charges	34,406	32,035	29,287
	-----	-----	-----
INTEREST CHARGES			
Interest on long-term debt	13,015	11,512	11,294
Other interest and amortization of debt expense	1,562	2,838	1,651
	-----	-----	-----
Total interest charges	14,577	14,350	12,945
	-----	-----	-----
NET INCOME	19,829	17,685	16,342
EARNINGS AVAILABLE FOR COMMON SHAREHOLDER	\$ 19,829	\$ 17,685	\$ 16,342
BASIC EARNINGS PER COMMON SHARE	\$ 185,318	\$ 176,850	\$ 163,420
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	107	100	100
DIVIDENDS DECLARED PER COMMON SHARE	\$ 123,000	\$ 129,000	\$ 120,400

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

SOUTHERN CALIFORNIA WATER COMPANY

STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

(in thousands)	Common Shares		Additional Paid-in Capital	Earnings Reinvested in the Business
	Number of Shares	Amount		
BALANCES AT DECEMBER 31, 1998	100	\$98,391	--	\$57,330
Add:				
Net Income				16,342
Deduct:				
Dividends on Common Shares - \$30,900 per share				3,090
Dividends on Common Shares - \$30,500 per share				3,050
Dividends on Common Shares - \$29,000 per share				2,900
Dividends on Common Shares - \$30,000 per share				3,000
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 1999	100	\$98,391	--	\$61,632
Add:				
Net Income				17,685
Deduct:				
Dividends on Common Shares - \$32,000 per share				3,200
Dividends on Common Shares - \$31,000 per share				3,100
Dividends on Common Shares - \$33,000 per share				3,300
Dividends on Common Shares - \$33,000 per share				3,300
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 2000	100	\$98,391	--	\$66,417
Add:				
Net Income				19,829
Issuance of Common Shares	10	25,000	--	
Deduct:				
Dividends on Common Shares - \$33,000 per share				3,300
Dividends on Common Shares - \$30,000 per share				3,300
Dividends on Common Shares - \$33,000 per share				3,630
Dividends on Common Shares - \$30,000 per share				3,300
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 2001	110	\$123,391	--	\$72,716
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements



## SOUTHERN CALIFORNIA WATER COMPANY

## STATEMENTS OF CASH FLOWS

(in thousands)	For the years ended December 31,		
	2001	2000	1999
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 19,829	\$ 17,685	\$ 16,342
Adjustments for non-cash items:			
Depreciation and amortization	16,710	15,086	14,229
Deferred income taxes and investment tax credits	7,489	5,685	2,430
Other - net	(2,225)	(479)	1,308
Changes in assets and liabilities:			
Customer receivables	(157)	64	(1,640)
Prepayments	1,446	1,095	(1,137)
Supply cost balancing accounts	(14,681)	(6,371)	(474)
Accounts payable	2,345	(2,412)	3,561
Taxes payable	(76)	(25)	(447)
Unbilled revenue	(577)	(18)	(2,042)
Accrued Interest	155	138	179
Other - net	3,515	4,352	7,074
	-----	-----	-----
Net cash provided	33,773	34,800	39,383
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Construction expenditures	(47,598)	(45,560)	(57,823)
	-----	-----	-----
Net cash used	(47,598)	(45,560)	(57,823)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of Securities	95,000	--	47,028
Receipt of advances for and contributions in aid of construction	6,241	2,512	3,883
Refunds on advances for construction	(4,119)	(2,961)	(1,540)
Repayments of long-term debt	(233)	(366)	(395)
Net change in notes payable to banks	(45,000)	24,000	(17,000)
Common dividends paid	(13,530)	(12,900)	(12,040)
	-----	-----	-----
Net cash provided	38,359	10,285	19,936
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24,534	(475)	1,496
Cash and Cash Equivalents, Beginning of Year	1,545	2,020	524
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 26,079	\$ 1,545	\$ 2,020
	-----	-----	-----
TAXES AND INTEREST PAID:			
Income taxes paid	\$ 6,602	\$ 9,152	\$ 12,241
Interest paid	\$ 14,461	\$ 14,120	\$ 11,834
	-----	-----	-----
NON-CASH TRANSACTIONS:			
Property installed by developers and conveyed to Company	\$ 2,104	\$ 2,570	\$ 4,096
	=====	=====	=====

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

## NOTES TO FINANCIAL STATEMENTS

American States Water Company (AWR) is the parent company of Southern California Water Company (SCW), American States Utility Services, Inc. (ASUS) and Chaparral City Water Company (CCWC). SCW is a public utility engaged principally in the purchase, production, distribution and sale of water in California. SCW also distributes electricity in several California mountain communities. The California Public Utilities Commission (CPUC) regulates SCW's water and electric business, including properties, rates, services, facilities and other matters. CCWC is a public utility regulated by the Arizona Corporation Commission (ACC) serving approximately 11,000 customers in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. AWR completed the acquisition of the common stock of CCWC on October 10, 2000 for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt. ASUS performs non-regulated, water related services and operations on a contract basis. There is no direct regulatory oversight by either the CPUC or the ACC of ASUS or AWR. The consolidated financial statements include the accounts of AWR, SCW, ASUS and CCWC. AWR's assets and revenues are primarily those of SCW.

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of AWR include the accounts of AWR and its wholly owned subsidiaries SCW, ASUS and CCWC (collectively referred to as Registrant). Inter-company transactions and balances have been eliminated. The preparation of these financial statements required the use of certain estimates by management in determining Registrant's assets, liabilities, revenues and expenses.

The utility subsidiaries, SCW and CCWC, have incurred various costs and received various credits reflected as regulatory assets and liabilities. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS 71, utility companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

Property and Depreciation: SCW and CCWC capitalize, as utility plant, the cost of additions and replacements of retirement units. Such cost includes labor, material and certain indirect charges. Depreciation is computed on the straight-line, remaining-life basis. For the years 2001, 2000 and 1999 the aggregate provisions for depreciation for SCW approximated 2.6%, 2.6% and 2.5% of the beginning of the year depreciable plant, respectively. The aggregate provision for depreciation for CCWC is 2.5% for each of the same three years.

At December 31, 2001, Registrant had \$12,285,000 in goodwill included in Other Property and Investments. This amount represents the difference between the purchase price of the common equity of CCWC and CCWC's book equity at the time of closing and was being amortized over a period of 40 years. Pursuant to FASB No. 142, Goodwill and Other Intangible Assets, AWR has concluded that this goodwill is not impaired at December 31, 2001. As a result, amortization of this goodwill will cease effective January 1, 2002. AWR is required to reassess impairment annually.

Interest: Interest is generally not capitalized for financial reporting purposes as such procedure is not followed for ratemaking purposes.

Revenues: Revenues include amounts billed to customers and unbilled revenues representing estimated amounts to be billed for usage from the last meter reading date to the end of the accounting period.

Basic Earnings Per Common Share: Basic Earnings per Common Share are based upon the weighted average number of Common Shares outstanding and net income after deducting preferred dividend requirements.

Fully Diluted Earnings Per Common Share: Diluted Earnings Per Common Share are based upon the weighted average number of Common Shares including both outstanding and shares potentially issued in connection with stock options granted under Registrant's 2000 Stock Incentive Plan, and net income after deducting preferred dividend requirements. At December 31, 2001 and 2000, respectively, there were 91,647 and 45,657 options outstanding.

Supply Cost Balancing Accounts: As permitted by the CPUC prior to November 29, 2001, Registrant maintained water and electric supply cost balancing accounts for SCW to account for under-collections and over-collections of revenues designed to recover such costs. Costs were 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. Registrant accrued interest on its supply cost balancing accounts at the rate prevailing for 90-day commercial paper. On November 29, 2001, the CPUC issued a resolution ordering that water utilities with existing balancing accounts cease booking amounts into these accounts. In its place, the CPUC required water utilities to start a new memorandum account that would work in a manner similar to the balancing account to track the under-collection or over-collection of supply costs for its water utility service areas. In accordance with this resolution, all supply costs will be accounted for and included in the income statement, just as is the case currently. However, the income statements will not include entries in the income statement reflecting the differences between actual unit supply costs included in rates and those actually experienced by SCW for its water utility service areas. Amounts included in deferred costs (balancing accounts) in the balance sheet will continue to be included in such accounts for SCW's Bear Valley Electric division for recovery at a later date in accordance with the pre-November 29, 2001 procedure applicable to both its water and electric supply balancing accounts. SCW, will not be entitled to recover any deferred costs for its water utility service areas unless (i) the utility is within its general rate case cycle and (ii) it is earning less than its authorized rate of return on a weather normalized means test basis. Registrant does not maintain a supply cost balancing account for CCWC.

Debt Issue Expense and Redemption Premiums: Original debt issue expenses are amortized over the lives of the respective issues. Premiums paid on the early redemption of debt, which is reacquired through refunding, are deferred and amortized over the life of the debt issued to finance the refunding. The redemption premium on debt reacquired without refunding is amortized over the remaining period the debt would have been outstanding.

Other Credits: Advances for construction represent amounts advanced by developers, which are generally refundable at rates ranging from 10% to 22% of the revenue received from the installations for which funds were advanced or in equal annual installments over periods of time ranging from 10 to 40-year periods. Contributions-in-aid of construction are similar to advances, but require no refunding and are amortized over the useful lives of the related property. For CCWC, advances for construction represents amounts advanced by developers which are refundable over 10 to 20 years. Refund amounts under the contracts are based on annual revenues from the extensions.

Cash and Cash Equivalents: For purposes of the Statements of Cash Flows, cash and cash equivalents include short-term cash investments with an original maturity of three months or less.

Financial Instrument Risk: Registrant does not carry any financial instruments with off-balance sheet risk nor does its operations result in concentrations of credit risk except for the block-forward purchase power contracts. Under the terms of its power purchase contracts with Mirant Americas Energy Marketing, LP (Mirant Marketing) and Pinnacle West Capital Corporation (Pinnacle West Capital), 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. These block-forward purchase power contracts meet the normal purchase exception rule under FASB No.133, "Accounting for Derivative Instruments and Hedging Activities."

Fair Value of Financial Instruments: The table below estimates the fair value of each represented class of financial instrument held by Registrant. For cash and cash equivalents, accounts receivable and short-term debt, the carrying amount is used. Otherwise, rates available to Registrant at December 31, 2001 and 2000 for debt with similar terms and remaining maturities were used to estimate fair value for long-term debt. Changes in the assumptions will produce differing results.

(dollars in thousands)	2001		2000	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash	\$30,496	\$30,496	\$5,808	\$5,808
Accounts receivable	28,004	28,004	27,077	27,077
Financial liabilities:				
Short-term debt	20,000	20,000	45,000	45,000
Long-term debt	\$246,452	\$260,274	\$177,147	\$186,475

## NOTE 2 - CAPITAL STOCK

All of the series of Preferred Shares outstanding at December 31, 2001 are redeemable at the option of AWR. At December 31, 2001, the redemption price per share for each series of \$25 Preferred Shares was \$27.00, \$26.50 and \$25.25 for the 4%, 4 1/4% and 5% Series, respectively, plus accrued and unpaid dividends to the redemption date.

The \$25 Preferred Shares, 5% Series, are subject to mandatory redemption provisions of 1,600 shares per year. The annual aggregate mandatory redemption requirement for this Series for the five years subsequent to December 31, 2001 is \$40,000 each year. AWR intends to redeem or repurchase all of its outstanding Preferred Shares during the first quarter of 2002.

AWR has a Registration Statement on file with the SEC for issuance, from time to time, of up to \$60 million in Common Shares, Preferred Shares and/or debt securities. On August 16, 2000, AWR issued 1,107,000 shares under this Registration Statement. Net proceeds from this sale were used to fund a portion of the purchase price of CCWC and were invested in SCW. As of December 31, 2001, approximately \$31,080,000 remained for issuance under this Registration Statement.

For the year ended December 31, 2001 and December 31, 1999, all shares issued under Registrant's Common Share Purchase and Dividend Reinvestment Plan (DRP) and the 401(k) Plan were purchased on the open market. For the year ended December 31, 2000, Registrant issued 6,961 and 7,997 Common Shares under Registrant's DRP and 401(k) Plan, respectively. There are 493,039 and 63,411 Common Shares authorized but unissued under the DRP and the 401(k) Plan, respectively, at December 31, 2001. Shares reserved for the 401(k) Plan are in relation to Company matching contributions and for investment purposes by participants.

There are 250,000 Common Shares reserved for issuance under Registrant's "2000 Stock Incentive Plan." Under the Plan, stock options representing, 45,657 and 45,999 Common Shares upon exercise were granted to certain eligible employees on May 1, 2000 and January 2, 2001, respectively. The following table sets forth information with respect to all options granted. The fair value for each option granted was determined on the date of grant using the Black-Scholes model.

December 31, -----	2001 -----	2000 -----
Exercise Price/share	\$34.81	\$31.25
Expiration date	January 1, 2011	April 30, 2010
Risk-free rate of return	5.7%	6.5%
Dividend yield	4.2%	4.0%
Expected volatility	30.5%	28.4%
Fair value/share	\$10.90	\$9.89

One-third of the stock options granted become excisable on each of the first three anniversaries of the grant date, but may be exercised earlier if there is a change in control of the Company. No options were exercised at December 31, 2001.

SCW and CCWC are subject to contractual restrictions on their ability to pay dividends. Dividends in the amount of \$13,530,00 and \$12,900,000 were paid by SCW in 2001 and 2000, respectively. Dividends in an amount of \$1,003,000 were distributed to AWR in 2001 by CCWC. There were no dividends distributed from CCWC to AWR in 2000.

In 1998, the Board of Directors adopted a Shareholder Rights Plan (Rights Plan) and authorized a dividend distribution of one right (a Right) to purchase 1/1000th of Junior Participating Preferred Share for each outstanding Common Share. The Rights Plan became effective in September 1998 and will expire in September 2008. The Rights Plan is designed to provide shareholders' protection and to maximize shareholder value by encouraging a prospective acquirer to negotiate with the board.

Each Right represents a right to purchase 1/1000th of Junior Participating Preferred Share at the price of \$120, subject to adjustment (the Purchase Price). Each Junior Participating Preferred Share is entitled to receive a dividend equal to 1000 times any dividend paid on each Common Share and 100 votes per share in any shareholder election. The Rights become exercisable upon occurrence of a Distribution Date event. A Distribution Date event occurs if (i) any person accumulates 15% of the then outstanding Common Shares, (ii) any person presents a tender offer which caused the person's ownership level to exceed 15% and the board determines the tender offer not to be fair to AWR's shareholders, or (iii) the board determines that a shareholder maintaining a 15% interest in the Common Shares could have an adverse impact on AWR or could attempt to pressure AWR to repurchase the holder's shares at a premium.

Until the occurrence of a Distribution Date, each Right trades with the Common Share and is not separately transferable. When a Distribution Date occurs, AWR would distribute separately Rights Certificates to Common Shareholders and the Rights would subsequently trade separate from the Common Shares and each holder of a Right, other than the acquiring person whose Rights will thereafter be void, will have the right to receive upon exercise at its then current Purchase Price that number of Common Shares having a market value of two times the Purchase Price of the Right. If AWR merges into the acquiring person or enters into any transaction that unfairly favors the acquiring person or disfavors AWR's other shareholders, the Right becomes a right to purchase Common Shares of the acquiring person having market value of two times the Purchase Price.

The board of directors may determine that, in certain circumstances, a proposal, which would cause a distribution of the Rights, is in the best interest of AWR's shareholders. Therefore, the board of directors may, at its option, redeem the Rights at a redemption price of \$0.01 per Right.

#### NOTE 3 - BANK DEBT

AWR maintained a non-revolving credit facility with a \$25 million aggregate borrowing capacity in 2001. At December 31, 2001, \$20 million was outstanding under this facility. It was subsequently paid off on January 2, 2002. The aggregate short-term borrowing capacity available to SCW under its three bank lines of credit was \$47 million as of December 31, 2001, of which no amount was outstanding. There were no compensating balances required. Loans can be obtained at the option of Registrant and bear interest at rates based on floating prime borrowing rates or at money market rates.

Registrant's short-term borrowing activities for the last three years were as follows:

(in thousands, except percent)	2001	December 31, 2000	1999
	-----	-----	-----
Balance Outstanding at December 31,	\$20,000	\$45,000	\$21,000
Interest Rate at December 31,	2.82%	7.19%	7.35%
Average Amount Outstanding	\$34,748	\$38,531	\$8,775
Weighted Average Annual Interest Rate	4.65%	7.11%	5.11%
Maximum Amount Outstanding	\$50,000	\$50,000	\$21,000
	-----	-----	-----

There were no short-term borrowing activities at ASUS or CCWC.

#### NOTE 4 - LONG TERM DEBT

In January 2001, \$20 million of Series C Medium Term Notes were sold with net proceeds from the issuance initially used to repay short-term bank borrowings and, after that, to fund construction expenditures. In 2001 SCW filed a Registration Statement for issuance from time to time of up to \$100 million in debt securities. SCW issued \$50 million in long-term debt in December 2001. The net proceeds were used to repay short-term bank borrowings, with the remaining proceeds used to refund certain existing long-term debt obligations, and for payments for construction, completion,

extension or improvement of facilities. SCW has no mortgage debt, and leases and other similar financial arrangements are not material.

CCWC has long-term Industrial Development Authority Bonds (IDA Bonds) and a repayment contract due 2006. Substantially all of the utility plant of CCWC is pledged to secure its IDA Bonds. The Bond Agreement, among other things, (i) requires CCWC to maintain certain financial ratios, and (ii) restricts CCWC's ability to incur additional debt, make liens, sell, lease or dispose of assets, merge with another corporation, and pay dividends.

SCW has posted an Irrevocable Letter of Credit, which expires April 30, 2002 in the amount of \$2,513,183 with an annual fee of 0.75% as security for its self-insured workers' compensation plan. SCW has also provided an Irrevocable Letter of Credit with a fee of 0.9%, which expires November 15, 2003, in the amount of \$6,296,000 to a trustee with respect to the variable rate obligation issued by the Three Valleys Municipal Water District. Additionally, in November 2000, SCW posted an Irrevocable Letter of Credit with an annual fee of 0.65%, which expires in October 1, 2002, in the amount of \$250,000 as security for the deductible in the Company's business automobile insurance policy.

Annual maturities of all long-term debt, including capitalized leases, amount to \$759,867, \$13,300,444, \$849,286, \$903,262 and \$662,768 for the five years ending December 31, 2002 through 2006, respectively.

#### NOTE 5 - TAXES ON INCOME

Registrant provides deferred income taxes for temporary differences under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109), for certain transactions which are recognized for income tax purposes in a period different from that in which they are reported in the financial statements. The most significant items are the tax effects of accelerated depreciation, the supply cost balancing accounts and advances for and contributions-in-aid-of- construction. SFAS No. 109 also requires that rate-regulated enterprises record deferred income taxes for temporary differences accorded flow-through treatment at the direction of a regulatory commission. The resulting deferred tax assets and liabilities are recorded at the expected cash flow to be reflected in future rates. Since the CPUC has consistently permitted the recovery of previously flowed-through tax effects, SCW has established regulatory liabilities and assets offsetting such deferred tax assets and liabilities.

Deferred investment tax credits are being amortized to other income ratably over the lives of the property, giving rise to the credits.

The significant components of deferred tax assets and deferred tax liabilities, as reflected in the balance sheets, and the accumulated net deferred income tax liabilities at December 31, 2001 and 2000 were:

(dollars in thousands)	December 31,	
	2001	2000
Deferred tax assets:		
Other	\$14,934	\$14,969
	14,934	14,969
Deferred tax liabilities		
Depreciation	(48,064)	(46,540)
Other property related	(8,178)	(8,728)
Other non-property related	(2,666)	(4,480)
Balancing accounts	(9,470)	(3,103)
	(68,378)	(62,851)
Accumulated deferred income taxes - net	\$(53,444)	\$(47,882)

The current and deferred components of income tax expense are as follows:

	December 31,		
(dollars in thousands)	2001	2000	1999
Current			
Federal	\$5,312	\$7,991	\$9,360
State	1,612	2,242	2,799
Total current tax expense	6,924	10,233	12,159
Deferred - Federal and State:			
Accelerated depreciation	3,376	3,556	3,405
Balancing accounts	6,436	2,863	(207)
Advances and contributions	--	--	--
California privilege year franchise tax	(1,015)	(1,216)	(970)
Other	(657)	(392)	(664)
Total deferred tax expense	8,140	4,811	1,564
Total income tax expense	15,064	15,044	13,723
Income taxes included in operating expenses	15,379	15,127	13,345
Income taxes included in other income and expenses - net	(315)	(83)	378
Total income tax expense	\$15,064	\$15,044	\$13,723

Additional information regarding taxes on income is set forth in the following table:

	December 31,		
(dollars in thousands, except percent)	2001	2000	1999
Federal taxes on pre-tax income at statutory rates	\$12,426	\$11,595	\$10,438
Increase (decrease) in taxes resulting from:			
State income tax expense	2,900	2,722	2,605
Depreciation	1,424	1,424	1,184
Federal benefit of state taxes	(1,015)	(953)	(912)
Adjustments to prior years' provisions	(686)	101	433
Payment of premium on redemption	66	66	66
Other - net	(51)	89	(91)
Total income tax expense	\$15,064	\$15,044	\$13,723
Pre-tax income	\$35,511	\$33,130	\$29,824
Effective income tax rate	42.4%	45.4%	46.0%

#### NOTE 6 - EMPLOYEE BENEFIT PLANS

Registrant maintains a pension plan (the Plan) that provides eligible employees (those age 21 and older, with one year of service) monthly benefits upon retirement based on average salaries and length of service. The normal retirement benefit is equal to 2% of the five highest consecutive years average earnings multiplied by the number of years of credited service, up to a maximum of 40 years, reduced by a percentage of primary social security benefits. There is also an early retirement option. Annual contributions are made to the Plan, which comply with the funding requirements of the Employee Retirement Income Security Act (ERISA).

Registrant also provides all active employees medical, dental and vision care benefits through a medical insurance plan. Eligible employees who retired prior to age 65, and/or their spouses, were able to retain the benefits under the active plan until reaching age 65. Eligible employees upon reaching age 65, and those employees retiring at or after age 65, and/or their spouses, receive coverage through a Medicare supplement insurance policy paid for by Registrant subject to an annual cap limit.

The CPUC has issued a decision, which provides for the recovery in rates of tax-deductible contributions made to a separate trust fund. In accordance with that decision, Registrant established two separate trusts in 1995, one for those retirees who were subject to a collective bargaining agreement and another for all other retirees. Registrant's funding policy is to contribute annually an amount at least equal to the revenues authorized to be collected through rates for post-retirement benefit costs. Post-retirement benefit costs for 1993, 1994 and 1995 were estimated at a total of \$1.6 million





and have been recorded as a regulatory asset for recovery over a 20-year period. The unamortized balance at December 31, 2001 was approximately \$452,100.

At December 30, 2001, Registrant had 740 participants in the Plan, 74 of these are employees covered by collective bargaining agreements, the earliest of which expires in 2002. The following table sets forth the Plan's funded status and amounts recognized in Registrant's balance sheets and the components of net pension cost and accrued post-retirement liability at December 31, 2001 and 2000:

(dollars in thousands)	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
CHANGE IN BENEFIT OBLIGATION:				
Benefit Obligation at beginning of year	\$40,521	\$35,513	\$4,585	\$4,431
Service Cost	1,868	1,530	115	103
Interest Cost	2,877	2,649	335	313
Actuarial Loss/(Gain)	(81)	2,164	159	(32)
Plan Amendment	105	--	--	--
Benefits Paid	(1,460)	(1,335)	(255)	(230)
Benefit Obligation at end of year	\$43,830	\$40,521	\$4,939	\$4,585
CHANGES IN PLAN ASSETS:				
Fair Value of Plan Assets at beginning of year	\$45,105	\$47,776	\$2,058	\$1,760
Actual Return of Plan Assets	(1,641)	(1,336)	(78)	70
Employer Contributions	--	--	468	458
Benefits Paid	(1,460)	(1,335)	(256)	(230)
Fair Value of Plan Assets at end of year	\$42,004	\$45,105	\$2,192	\$2,058
RECONCILIATION OF FUNDED STATUS:				
Funded Status	(\$1,826)	\$4,583	(\$2,748)	(\$2,528)
Unrecognized Transition Obligation	--	--	5,449	5,868
Unrecognized Net Loss/(Gain)	2,137	(2,969)	(1,218)	(1,704)
Unrecognized Prior Service Cost	372	311	(2,829)	(3,028)
Prepaid/(Accrued) Pension Cost	\$683	\$1,925	(\$1,345)	(\$1,392)
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31:				
Discount Rate	7.25%	7.25%	7.25%	7.25%
Long-term Rate of Return	8.00%	8.00%	8.00%	8.00%
Salary Assumption	4.00%	4.00%	--	--
Medical Cost Trend Rate	--	--	8.50%	6.00%

A sliding scale for assumed health care cost increase was used for both periods, starting at 6% in 2000 then remaining at 8.5% in 2001 graded down 1/2 percentage point each year to 5% after 7 years.

The components of net periodic post-retirement benefits cost for 2001 and 2000 are as follows:

(dollars in thousands)	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
COMPONENTS OF NET PERIODIC BENEFITS COST				
Service Cost	\$1,868	\$1,530	\$115	\$103
Interest Cost	2,877	2,649	335	313
Actual Return on Plan Assets	1,641	1,336	78	(70)
Net Amortization	(5,144)	(5,448)	(106)	23
Net Periodic Pension Cost	\$1,242	\$67	\$422	\$369

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(dollars in thousands)	1-Percentage- Point Increase -----	1-Percentage- Point Decrease -----
Effect on Total of Service and Interest Cost Components	\$12	(\$10)
Effect on Postretirement Benefit Obligation	\$171	(\$152)

Registrant has a 401(k) Investment Incentive Program under which employees may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Company contributions to the 401(k) are based upon a percentage of individual employee contributions and, for 2001, 2000 and 1999, totaled \$953,938, \$968,019, and \$920,340, respectively.

#### NOTE 7 - BUSINESS RISKS AND COMMITMENTS

Registrant's utility operations are engaged in supplying water and electric service to the public. Registrant is required to provide service and grant credit to customers within its defined service areas. Although Registrant has a diversified base of residential, industrial and other customers, revenues derived from commercial and residential water customers accounted for approximately 91% of total water revenues in 2001, which is about the same percentage as in 2000. Registrant faces additional risks associated with weather conditions, adequacy and quality of water supplies, regulatory decisions, pronouncements and laws, water-related litigation, general business conditions and condemnation.

Approximately 39.6% of SCW's water supply is purchased from wholesalers of imported water, with the remainder produced from Company wells. The long-term availability of imported water supplies is dependent upon, among other things, drought conditions throughout the state, increases in population, water quality standards and legislation that may potentially reduce water supplies. Reservoir storage statewide is at 95% of normal in January of 2002. The Metropolitan Water District of Southern California has publicly assured consumers that it is well prepared to help the region through one or more dry years.

CCWC has a long-term water supply contract with the Central Arizona Water Conservation District through September 2043 and is entitled to take 6,978 acre feet of water per year from the Central Arizona Project (CAP). 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 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. For the 2001 water year 6,929,200 AF of water flowed into Lake Powell from the Colorado River, which is only 52% of normal. However the Lake itself is currently at 95% of normal level at the end of 2001.

The electric energy environment in California has changed as a result of the December 1995 CPUC decision on restructuring of California's electric utility industry and state legislation passed in 1996. SCW's Bear Valley electric customer service area was exempted by the CPUC from compliance with most of the provisions of the CPUC order and the state legislation.

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 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, and a dysfunctional power market.

All electric energy sold by SCW to customers in its BVE customer service area is purchased from others. In response to the potential for rising electricity costs, SCW entered into block forward purchase contracts with various parties over time. In March 2001, SCW entered into a five-year, block forward purchase contract with Mirant Americas Energy Marketing, LP (Mirant Marketing) to supply its BVE customer service area with 15 MWh of electric energy at a price of \$95 per MWh beginning April 1, 2001 through December 31, 2006. SCW has filed a complaint with the Federal Energy Regulatory Commission seeking to reduce the rates in the Mirant Marketing contract to a just and reasonable price. In June 2001, SCW executed a three-year, block forward purchase agreement with Pinnacle West Capital

Corporation for an additional 8 Mws of electric energy to meet BVE's peak winter demands at a price of \$75 per MWh for the first year, \$48 per MWh for the second year and \$36 per MWh for the third year. 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 38 Mws when the snowmaking machines at the ski resorts are operating

On February 8, 2002, a settlement agreement among SCW, all intervening parties and the Office of Ratepayer Advocates ("ORA") was filed with the CPUC that will permit SCW to recover \$77 per MWh of purchased power costs through rates. SCW will only be allowed to include up to a weighted annual energy purchase cost of \$77 per MWh each year 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 will recover 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 will not be able to include these amounts in its balancing account and such amounts will be expensed against income. SCW has established approximately \$7.9 million in reserves as of December 31, 2001 against potential non-recovery of electric power costs. In addition, the settlement extended the previously approved surcharges for an additional five years to allow SCW an opportunity to collect amounts remaining in its electric cost balancing account. The proposed settlement also 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 Marketing to just and reasonable prices. A final decision in this matter is expected during the second quarter of 2002. Management believes the CPUC will support the settlement agreement, but is unable to predict when or if the CPUC will authorize recovery of any or all of the costs agreed to in the settlement. For further information, see the sections entitled "Liquidity and Capital Resources" and "Electric Energy Situation in California" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

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. In order to meet these increasing energy demands, SCW is considering a number of options including (i) the purchase of electric energy from on-site generation facilities installed by a third party, (ii) the use of portable generation, and (iii) the installation of generation owned by Registrant. Each of these options is expected to result in further increases in electric energy prices for customers of SCW's BVE customer service area.

#### NOTE 8 - CONTINGENCIES

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

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

On October 25, 1999, SCW filed a lawsuit against the California Regional Water Quality Control Board (CRWQCB) alleging that the CRWQCB has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is destroying the underground water supply in SCW's Rancho Cordova customer service area. Management cannot predict the likely outcome of this proceeding.

In a separate case, also filed on October 25, 1999, SCW sued Aerojet-General Corporation (Aerojet) for causing the contamination of the Sacramento County Groundwater Basin. On March 22, 2000, Aerojet filed a cross complaint against SCW for negligence and constituting a public nuisance. Registrant is unable to determine at this time what, if any, potential liability it may have with respect to the cross complaint, but intends to vigorously defend itself against these allegations. Management cannot predict the likely outcome of this proceeding.

The CPUC has authorized memorandum accounts to allow for recovery of costs incurred by SCW in prosecuting the cases against CRWQCB and Aerojet from customers, less any recovery from the defendants or others. As of December 31, 2001, approximately \$6,640,000 has been recorded in the memorandum accounts. The CPUC has authorized SCW to increase rates, effective April 28, 2001, for recovery over a six-year period of approximately \$1,800,000, in expenses that were incurred on or before August 31, 2000. SCW will continue to file additional Advice Letters to recover the remaining costs. Management believes these costs are recoverable but cannot give assurance that the CPUC will ultimately allow recovery of all or any of the remaining costs through rates.

On April 25, 2001, Registrant filed a lawsuit 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. MTBE contaminated water exists in areas of the basin from which SCW has pumped water through its Charnock Well Field. As a result, SCW ceased operation of its Charnock Well Field in October 1996. Registrant has reached an agreement in this matter that assigns the prosecution of litigation against the potentially responsible parties to the City of Santa Monica, California (Santa Monica). As part of the agreement and in exchange for an assignment payment, Santa Monica will prosecute the case against the potentially responsible parties. Registrant expects that Santa Monica will sign the agreement by the end of the first quarter of 2002.

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. Subsequently Edison filed a cross-complaint against SCW for breach of contract, anticipatory breach and quantum meruit. Registrant has discussed various settlement options with Edison regarding this matter. However, management cannot predict the likely outcome of either the negotiations or the lawsuits.

Under the terms of an energy purchase contract with Dynegy Power Marketing, Inc. (DYPM) that expires on April 30, 2002, DYPM has agreed to provide electric energy to SCW in excess of the amounts it has purchased under the forward block purchase contracts previously described, to sell excess energy purchased by SCW under the terms of these contracts, if requested by SCW, and to act as scheduling coordinator for SCW. However, SCW has entered into a separate agreement for Automated Power Exchange, Inc. to act as its scheduling coordinator and will not utilize the services of DYPM. SCW has withheld payment on \$3.4 million invoiced by DYPM for the period December 20, 2000 through February 20, 2001, pending resolution of certain disputes. Most of this amount is included in the electric supply cost balancing account. Based on information available to it, Registrant expects the amount in dispute to increase.

Management believes that proper insurance coverage and reserves are in place to insure against property, general liability and workers' compensation claims incurred in the ordinary course of business.

#### NOTE 9 - CONSTRUCTION PROGRAM

Registrant's 2002 construction budget provides for gross expenditures of approximately \$64.5 million; \$8.7 million of this amount is to be obtained from developers and others. CCWC has a net capital budget of \$1.4 million for 2002. AWR and ASUS have no material capital commitments. However, ASUS actively seeks opportunities to own, lease or operate municipal water and wastewater systems, which may involve significant capital commitments.

#### NOTE 10 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

The table below presents Registrant's provision for doubtful accounts charged to expense and accounts written off, net of recoveries. Provisions included in 2001 represent both SCW and CCWC. Provisions in 2000 and 1999 represent SCW only.

(dollars in thousands)	December 31,		
	2001	2000	1999
Balance at beginning of year	\$510	\$487	\$403
Provision charged to expense	1,033	630	852
Accounts written off, net of recoveries	(571)	(607)	(768)
Balance at end of year	\$972	\$510	\$487

Neither AWR parent nor ASUS have established any provision for doubtful accounts.

#### NOTE 11 - 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. All activities of ASUS are conducted in California and 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 operating segments, CCWC and non-regulated businesses. 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.

(dollars in thousands)	Year Ended December 31, 2001				
	SCW		CCWC Water	Non- Regulated*	Consolidated AWR
	Water	Electric			
Operating revenues	\$175,204	\$ 15,251	\$ 6,270	\$ 789	\$197,514
Operating income					
before income taxes	54,037	(3,941)	1,915	60	52,071
Identifiable assets	484,002	27,182	28,658	--	539,842
Depreciation expense	15,264	1,446	1,241	--	17,951
Capital additions	\$ 47,447	\$ 2,256	\$ 550	--	\$ 50,253

(dollars in thousands)	Year Ended December 31, 2000				
	SCW		CCWC Water	Non- Regulated*	Consolidated AWR
	Water	Electric			
Operating revenues	\$167,529	\$ 14,366	\$ 1,266	\$ 799	\$183,960
Operating income					
before income taxes	42,542	4,520	292	80	47,434
Identifiable assets	453,538	26,531	29,027	--	509,096
Depreciation expense	13,685	1,401	253	--	15,339
Capital additions	\$ 43,483	\$ 2,303	\$ 196	--	\$ 45,982

(dollars in thousands)	Year Ended December 31, 1999				
	SCW		CCWC Water	Non- Regulated*	Consolidated AWR
	Water	Electric			
Operating revenues	\$159,693	\$ 13,338	N/A	\$ 390	\$173,421
Operating income					
before income taxes	38,430	3,821	N/A	(392)	41,859
Identifiable assets	423,870	25,725	N/A	--	449,595
Depreciation expense	12,172	1,344	N/A	134	13,650
Capital additions	\$ 49,405	\$ 2,173	N/A	--	\$ 51,578

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\* Includes amounts from ASUS and AWR parent.

NOTE 12 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The quarterly financial information presented below is unaudited. The business of Registrant is of a seasonal nature and it is management's opinion that comparisons of basic earnings for the quarter periods do not reflect overall trends and changes in Registrant's operations.

(in thousands,  
except per share  
Amounts)

	Operating Revenues		Operating Income		Net Income		Basic Earnings per Share	
	2001	2000	2001	2000	2001	2000	2001	2000
First Quarter	\$ 40,291	\$ 38,749	\$ 7,223	\$ 6,202	\$ 3,117	\$ 2,895	\$0.31	\$0.32
Second Quarter	49,870	45,428	9,013	7,525	5,053	3,919	0.50	0.44
Third Quarter	59,410	55,248	13,372	11,791	9,454	8,218	0.94	0.86
Fourth Quarter	47,943	44,535	7,084	6,788	2,823	3,053	0.28	0.30
Year	\$197,514	\$183,960	\$36,692	\$32,307	\$20,447	\$18,086	\$2.02	\$1.92

REPORT OF MANAGEMENT

The consolidated financial statements contained in the annual report were prepared by the management of American States Water Company, which is responsible for their integrity and objectivity. The consolidated financial statements were prepared in accordance with generally accepted accounting principles and include, where necessary, amounts based upon management's best estimates and judgments. All other financial information in the annual report is consistent with the consolidated financial statements and is also the responsibility of management.

Registrant maintains systems of internal control, which are designed to help safeguard, the assets of Registrant and provide reasonable assurance that accounting and financial records can be relied upon to generate accurate financial statements. These systems include the hiring and training of qualified personnel, appropriate segregation of duties, delegation of authority and an internal audit function, which has reporting responsibility to the Audit Committee of the board of directors.

The Audit Committee, composed of three outside directors, exercises oversight of management's discharge of its responsibilities regarding the systems of internal control and financial reporting. The committee periodically meets with management, the internal auditor and the independent accountants to review the work and findings of each. The committee also reviews the qualifications of, and recommends to the board of directors, a firm of independent accountants.

The independent accountants, Arthur Andersen LLP, have performed an audit of the consolidated financial statements in accordance with generally accepted auditing standards. Their audit gave consideration to Registrant's system of internal accounting control as a basis for establishing the nature, timing and scope of their work. The result of their work is expressed in their Report of Independent Public Accountants.

s/ FLOYD E. WICKS	s/ McCLELLAN HARRIS III
- - - - -	- - - - -
Floyd E. Wicks	McClellan Harris III
President, Chief Executive Officer	Chief Financial Officer,
	Vice President - Finance,
	Treasurer and Corporate Secretary

March 4, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of American States Water Company:

We have audited the accompanying consolidated balance sheets and statements of capitalization of American States Water Company and its subsidiaries, and the balance sheets and statements of capitalization of Southern California Water Company (California corporations), as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001 of American States Water Company and the related statements of income, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001 of Southern California Water Company. These financial statements are the responsibility of the Registrant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American States Water Company and its subsidiaries, and Southern California Water Company, as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

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Arthur Andersen LLP  
Los Angeles, California

February 14, 2002



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information responsive to Part III, Item 10 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 11. EXECUTIVE COMPENSATION

Information responsive to Part III, Item 11 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and "Performance Graph" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information responsive to Part III, Item 12 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information responsive to Part III, Item 13 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and is incorporated herein by reference pursuant to General Instruction G(3).

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a)
  - 1. Reference is made to the Financial Statements incorporated herein by reference to Part II, Item 8 hereof.
  - 2. All required schedules may be found in the Financial Statements and Notes to Financial Statements incorporated herein by reference to Part II, Item 8 hereof or at the conclusion of this Item. Schedules II, III, IV, and V are omitted as they are not applicable.
- (b) No Reports of Form 8-K were filed during the fourth quarter of 2001.
- (c) Exhibits -
  - 3.1 By-Laws of American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated November 2, 1998. Commission File No. 333-47647.
  - 3.2 By-laws of Southern California Water Company incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
  - 3.2.1 Amended and Restated By-laws of Southern California Water Company.

- 3.3 Amended and Restated Articles of Incorporation of American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated November 2, 1998. Commission File No. 333-47647.
- 3.3.1 Certificate of Amendment of Amended and Restated Articles of Incorporation, dated August 25, 1998, of American States Water Company incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
- 3.3.2 Certificate of Amendment of Amended and Restated Articles of Incorporation of American States Water Company, dated August 25, 1999 incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 2000.
- 3.3 Restated Articles of Incorporation of Southern California Water Company incorporated herein by reference to Registrant's Form 8-K, dated January 20, 1999. Commission File No. 000-01121.
- 4.1 Amended and Restated Rights Agreement, dated January 25, 1999, by and between American States Water Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
- 4.2 Indenture, dated September 1, 1993 between Southern California Water Company and Chemical Trust Company of California incorporated herein by reference to Registrant's Form 8-K. Registration No. 33-62832.
- 10.1 Agreement of Merger dated as of June 25, 1998 by and among Southern California Water Company, SCW Acquisition Corp. and American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated July 1, 1998. Commission File No. 333-47647.
- 10.2 Deferred Compensation Plan for Directors and Executives incorporated herein by reference to Registrant's Registration Statement on Form S-2. Registration No. 33-5151.(2)
- 10.3 Reimbursement Agreement, dated September 1, 2000, between Southern California Water Company and Bank of America, N.A. incorporated herein.
- 10.4 Second Sublease dated October 5, 1984 between Southern California Water Company and Three Valleys Municipal Water District incorporated herein by reference to Registrant's Registration Statement on Form S-2. Registration No. 33-5151.
- 10.5 Note Agreement dated as of May 15, 1991 between Southern California Water Company and Transamerica Occidental Life Insurance Company incorporated herein by reference to Registrant's Form 10-Q with respect to the quarter ended June 30, 1991. Commission File No. 000-01121.
- 10.6 Schedule of omitted Note Agreements, dated May 15, 1991, between Southern California Water Company and Transamerica Annuity Life Insurance Company, and Southern California Water Company and First Colony Life Insurance Company incorporated herein by reference to Registrant's Form 10-Q with respect to the quarter ended June 30, 1991. Commission File No. 000-01121.
- 10.7 Loan Agreement between California Pollution Control Financing Authority and Southern California Water Company, dated as of December 1, 1996 incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
- 10.8 Agreement for Financing Capital Improvement dated as of June 2, 1992 between Southern California Water Company and Three Valleys Municipal Water District incorporated herein by

reference to Registrant's Form 10-K with respect to the year ended December 31, 1992. Commission File No. 000-01121.

- 10.9 Water Supply Agreement dated as of June 1, 1994 between Southern California Water Company and Central Coast Water Authority incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1994. Commission File No. 000-01121.
- 10.10 Amended and Restated Retirement Plan for Non-Employee Directors of American States Water Company, dated as of October 25, 1999, incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 2000.(2)
- 10.11 Dividend Reinvestment and Common Share Purchase Plan incorporated herein by reference to American States Water Company Rule 424 (b) (3) filing dated October 27, 1999. Commission File No. 333-88979.
- 10.12 Key Executive Long-Term Incentive Plan incorporated herein by reference to Registrant's 1995 Proxy Statement, Commission File No.00 0-01121.(2)
- 10.13 Energy Management Services Agreement between Southern California Water Company and Dynegy Power Marketing.
- 10.14 Amended and Restated Change in Control Agreements, dated as of October 25, 1999, between American States Water Company, Southern California Water Company and certain executives incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 2000.(2)
- 10.15 Amended and Restated Change in Control Agreements, dated as of October 25, 1999, between Southern California Water Company and certain executives incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 2000.(2)
- 10.16 Southern California Water Company Pension Restoration Plan incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 2000.(2)
- 10.17 American States Water Company Annual Incentive Plan as amended April 23, 2001.(2)
- 10.18 American States Water Company 2000 Stock Incentive Plan. Commission File No. 333-39482.(2)
- 10.19 Loan and Trust Agreement between The Industrial Development Authority of The County of Maricopa, Chaparral City Water Company and Bank One, Arizona, NA,, dated as of December 1, 1997.
- 10.20 Delivery Agreement between Central Arizona Water Conservation District and Chaparral City Water Company, dated as of December 6, 1984.
- 10.21 Repayment Contract between the United States Bureau of Reclamation and Chaparral City Water Company, dated as of December 6, 1984 for construction of a delivery and storage system to transport CAP water.
- 10.22 Energy Transaction Confirmation with Mirant Americas Energy Marketing, LP.
- 10.23 Power Purchase Agreement between Southern California Water Company and Pinnacle West Capital Corporation.
- 10.24 Western Systems Power Pool Agreement
- 10.25 Automated Power Exchange Master Service and Participation Agreement.(1)

21. Subsidiaries of Registrant incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1998. Commission File No. 001-14431.

23. Consent of Independent Public Accountants. (1)

(d) None.

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(1) Filed concurrently herewith

(2) Management contract or compensatory arrangement

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SUPPLEMENTAL SCHEDULE

To American States Water Company:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in this Form 10-K, and have issued our report thereon dated February 14, 2002. Our audits of the consolidated financial statements were made for the purpose of forming an opinion on those basic consolidated financial statements taken as a whole. The supplemental schedule listed in Part IV of this Form 10-K is the responsibility of American States Water Company's management, and is presented for purposes of complying with the Securities and Exchange Commission's rules, and is not part of the basic consolidated financial statements. This supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

s/ Arthur Andersen LLP

Arthur Andersen LLP  
Los Angeles, California

February 14, 2002

AMERICAN STATES WATER COMPANY  
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF PARENT

CONDENSED BALANCE SHEETS

(in thousands)	December 31, 2001	2000
	-----	-----
<b>ASSETS</b>		
Cash and equivalents	\$ 523	\$ 294
Other current assets	244	4,738
	-----	-----
Total current assets	767	5,032
Investments in subsidiaries	220,706	189,383
Other deferred debits	115	121
	-----	-----
Total assets	\$ 221,588	\$ 194,536
	=====	=====
<b>LIABILITIES AND CAPITALIZATION</b>		
Notes payable to banks	\$ 20,000	\$ --
Accounts payable	7	5
Other current liabilities	(281)	(112)
	-----	-----
Total current liabilities	19,726	(107)
Common shareholders' equity	199,982	192,723
Preferred shares	1,880	1,920
	-----	-----
Total capitalization	201,862	194,643
Total liabilities and capitalization	\$ 221,588	\$ 194,536
	=====	=====

CONDENSED STATEMENTS OF INCOME

(in thousands except per share amount)	December 31,	
	2001	2000
	-----	-----
Operating Revenue And Other Income	--	--
Operating Expenses	\$ 403	\$ (206)
	-----	-----
Income (Loss) Before Equity in Earnings of Subsidiaries	(403)	206
Equity in Earnings of Subsidiaries	20,850	17,880
	-----	-----
Net Income	20,447	18,086
Dividends on Preferred Shares	(84)	(86)
	-----	-----
Earnings Available For Common Shareholders	\$ 20,363	\$ 18,000
	-----	-----
Weighted Average Number of Common Shares Outstanding	10,080	9,380
	-----	-----
Basic Earnings Per Common Share	\$ 2.02	\$ 1.92
	-----	-----
Weighted Average Number of Diluted Common Shares Outstanding	10,171	9,411
	-----	-----
Fully Diluted Earnings per Common Share	\$ 2.00	\$ 1.91
	-----	-----

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)	December 31,	
	2001	2000
	-----	-----
Cash Flows From Operating Activities	\$ 18,457	\$ 13,075
	-----	-----
Cash Flows Used in Investing Activities	(25,000)	(24,340)
	-----	-----
Cash Flows From in Financing Activities	6,772	11,390
	-----	-----
Increase in Cash and Equivalents	229	125
Cash and Equivalents at Beginning of Period	294	169
	-----	-----
Cash and Equivalents at the End of Period	\$ 523	\$ 294
	-----	-----
Cash dividends received from Southern California Water Company and Chaparral City Water Company	\$ 13,530	\$ 12,900
	-----	-----



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN STATES WATER COMPANY  
and its subsidiary  
SOUTHERN CALIFORNIA WATER COMPANY

By: s/ McCLELLAN HARRIS III .

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

Date: March 4, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities and on the dates indicated.

s/ LLOYD E. ROSS . Date: March 4, 2002

-----  
Lloyd E. Ross  
Chairman of the Board and Director

s/ FLOYD E. WICKS . March 4, 2002

-----  
Floyd E. Wicks  
Principal Executive Officer;  
President, CEO and Director

s/ McCLELLAN HARRIS III . March 4, 2002

-----  
McClellan Harris III  
Principal Financial and Accounting  
Officer; CFO, VP - Finance,  
Treasurer and Secretary

s/ LINDA J. MATLICK . March 4, 2002

-----  
Linda J. Matlick  
Controller - Southern California  
Water Company

s/ JAMES L. ANDERSON . March 4, 2002

-----  
James L. Anderson, Director

s/ JEAN E. AUER . March 4, 2002

-----  
Jean E. Auer, Director

s/ N. P. DODGE, JR . March 4, 2002

-----  
N. P. Dodge, Jr., Director

s/ ANNE M. HOLLOWAY . March 4, 2002

-----  
Anne M. Holloway, Director

s/ ROBERT F. KATHOL . March 4, 2002

-----  
Robert F. Kathol, Director

AUTOMATED POWER EXCHANGE  
MASTER SERVICE AND PARTICIPATION AGREEMENT

THIS AUTOMATED POWER EXCHANGE MASTER SERVICE AND PARTICIPATION AGREEMENT ("MSPA") is made and entered into this 7th day of February, 2002 by and between Automated Power Exchange, Inc., a California corporation ("APX"), and Bear Valley Electric Services ("Participant"). APX and Participant are sometimes referred to herein individually as "Party" and collectively as the "Parties."

WHEREAS, APX operates electronic information exchanges in which Participants are able to buy and sell electricity and other products and services, and

WHEREAS, the Participant desires to enter into this APX MSPA in order to be able to utilize APX Services from time to time in accordance with the terms hereof.

NOW THEREFORE, in consideration of the foregoing and the mutual promises and covenants hereinafter set forth, the Parties agree and intend to be bound as follows:

1. DEFINITIONS AND INTERPRETATION.

- 1.1. Definitions. Except as otherwise defined herein, initially capitalized terms used in this APX MSPA have the meanings set forth in Section 2.1 of the APX Master Terms and Conditions of Service, together with certain additionally defined terms in all applicable Tabs, as amended and modified from time to time.
- 1.2. Interpretation. The rules of interpretation set forth in Section 2.2 of the APX Master Terms shall apply to this MSPA.
- 1.3. Conflicts. In the event of a conflict between the provisions of this MSPA and the APX Master Terms or any applicable Tabs, the provisions of this MSPA shall control and take precedence.

2. USE OF APX SERVICES.

- 2.1. Upon execution of this APX MSPA and satisfaction of the conditions of eligibility set forth in Section 3 of the APX Master Terms, the Participant shall be eligible to use the APX Services.
- 2.2. This APX MSPA does not obligate the Participant or any of its affiliates to use any APX Services.

3. TERMS AND CONDITIONS OF SERVICE.

- 3.1. The APX Master Terms, including all applicable Tabs, are incorporated herein and made a part of this APX MASPA.
- 3.2. APX and the Participant agree that:
  - a.) The APX Master Terms, inclusive of all applicable Tabs, this MSPA, and all rules, orders, procedures, or protocols duly promulgated from time to time by APX shall govern the Participant's use of any APX Service.
  - b.) APX and the Participant will abide by the APX Master Terms and all rules, orders, procedures and protocols duly promulgated by APX in respect of all matters relating to the Participant's use of any APX Service.
  - c.) The Participant's eligibility to use the APX Services is at all times subject to the APX Master Terms and all rules, orders, procedures, and protocols duly promulgated by APX, and may be revoked in accordance with the APX Master Terms.
- 3.3. APX may amend or modify the APX Master Terms from time to time in accordance with the procedures set forth in Section 9 of the APX Master Terms. Any such amendment or modification shall be binding upon the Participant in accordance with the provisions set forth in Section 9 of the APX Master Terms.

4. TERMS AND TERMINATION.

This APX MSPA shall become effective on the date set forth in the introductory paragraph and shall remain in effect unless terminated in accordance with the provisions set forth in Section 11 of the APX Master Terms.

5. REPRESENTATIONS AND WARRANTIES.

- 5.1. Each Party represents and warrants to the other Party the following:

- a.) Authority. The execution, delivery, and performance by each Party of this APX MSPA are within the Party's powers, have been duly authorized by all necessary corporate or other action, and do not and will not violate the terms and conditions in the Party's governing documents, any material contract to which the Party is a party, or any applicable laws; and
- b.) Binding Obligations. This APX MSPA constitutes the legal, valid, and binding obligations of each Party, enforceable against the

Party in accordance with its terms, except as enforceability may be limited by applicable bankruptcy or similar laws affecting the enforcement of creditor's rights generally or by equitable principles relating to enforceability of contracts made by and for competent parties.

5.2. The representations and warranties above are intended to be continuing representations and warranties with the expectation that each Party can and will rely upon their continuing applicability.

6. TRANSFER AND ASSIGNMENT.

6.1. Neither Party shall assign any of its rights nor delegate any of its obligations under this APX MSPA without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed. Any prohibited assignment or delegation shall be void.

6.2. Notwithstanding the foregoing, this APX MSPA shall be binding upon and shall inure to the benefit of the Parties and their respective successors and permitted assigns.

7. ELECTRONIC CONTRACTING.

All submitted applications, schedules, bids, confirmations, changes to information on file with APX, notices and other communications conducted via electronic transfer, including direct computer link, bulletin board, e-mail, facsimile or any other means established by APX, shall invoke the same legal rights, responsibilities, and obligations set forth in the APX Master Terms as if executed in written format. APX and Participant waive any defense under the Statute of Frauds, or similar provision of law, in connection therewith.

8. MISCELLANEOUS

- 8.1 Notices. Except as otherwise specified herein or in the APX Master Terms, notices shall be in writing and transmitted by mail, overnight courier, or facsimile. Notices to APX shall be addressed to: Automated Power Exchange, Inc. 5201 Great America Parkway #522 Santa Clara, California 95054 Attention: Contracts Department (408) 517-2100. Notices to Participant shall be addressed to the representative specified in Appendix 1 of this APX MSPA.
- 8.2 Entire Agreement. This APX MSPA and all attachments hereto, and the APX Master Terms with applicable Tabs embody the entire agreement and understanding of the Parties and superseded all prior or contemporaneous agreements and understandings of the Parties, verbal or written, relating to the subject matter hereof.
- 8.3 Governing Law. THIS APX MSPA SHALL BE GOVERNED BY, AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA, EXCLUDING ANY CHOICE OF LAW RULE THAT DIRECTS THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION, IRRESPECTIVE OF THE PLACES OF EXECUTION OR OF THE ORDER IN WHICH SIGNATURES OF THE PARTIES ARE AFFIXED OR OF THE PLACE OF PERFORMANCE.
- 8.4 Independent Parties. Nothing in this APX MSPA shall be construed or represented as creating a partnership, trust, fiduciary or any similar relationship among the Parties. Except as set forth in the APX Master Terms, no Party is authorized to act on behalf of the other Party and none shall be considered the agent of the other.
- 8.5 No Third-Party Beneficiaries. This APX MSPA is made and entered into for the sole protection and legal benefit of the Parties and their permitted successors and assigns. No other person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this APX MSPA.
- 8.6 Amendment. Subject to Section 1.3 above, this APX MSPA is subject to modification of the APX Master Terms. In all other respects, this APX MSPA shall be modified or amended only by a written instrument executed by the Parties and shall not be modified by course of performance or any usage of trade.
- 8.7 Severability. The illegality or unenforceability of any provision of this APX MSPA or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this APX MSPA or any instrument or agreement required hereunder.
- 8.8 Counterparts. This APX MSPA may be executed in any number of separate counterparts, which shall be deemed to constitute one instrument. The authorized representative of the Parties have executed this APX Master Service and Participation Agreement as of the date first set forth above:

AUTOMATED POWER EXCHANGE INC.

BEAR VALLEY ELECTRIC SERVICES

/s/ JOEL A. DICKSON

By: /s/ [SIGNATURE ILLEGIBLE]

By: Joel A. Dickson

Title: SR. VP

Title: Vice President

Date: 2/15/02

Date: February 7, 2002

APPENDIX 1

PARTICIPANT: BEAR VALLEY ELECTRIC SERVICE

REPRESENTATIVE CONTACT: RAYMOND P. JUELS  
630 EAST FOOTHILL BLVD.  
SAN DIMAS, CA 91773  
RJUELS@SCWATER.COM  
(909) 394-3600, EXT. 679  
(909) 394-3768 - FACSIMILE

EMERGENCY CONTACT: JOEL A. DICKSON  
630 EAST FOOTHILL BLVD.  
SAN DIMAS, CA 91773  
JADICKSON@SCWATER.COM  
(909) 394-3600, EXT. 636  
(909) 394-1382 - FACSIMILE

BILLING CONTACT: RAYMOND P. JUELS  
630 EAST FOOTHILL BLVD.  
SAN DIMAS, CA 91773  
RJUELS@SCWATER.COM  
(909) 394-3600, EXT. 679  
(909) 394-3768 - FACSIMILE

AGENT CONTACT: COMPLETE ENERGY SERVICES  
650 EAST PARKRIDGE AVENUE, #110  
CORONA, CA 92879  
COMPENERGY@COMPENERGY.COM

DAVE KOLK  
COMPLETE ENERGY SERVICES  
650 EAST PARKRIDGE AVENUE, #110  
CORONA, CA 92879  
DKOLK@COMPENERGY.COM  
(909) 280-9411  
(909) 280-9821 - FACSIMILE  
(909) 283-1097 - CELLULAR

JUNE SKILLMAN  
COMPLETE ENERGY SERVICES  
650 COMPLETE ENERGY SERVICES, #110  
CORONA, CA 92879  
JSKILLMAN@COMPENERGY.COM  
(909) 280-9411  
(909) 280-9821 - FACSIMILE  
(909) 290-3749 - CELLULAR

AUTOMATED POWER EXCHANGE  
MASTER TERMS AND CONDITIONS: TAB 1  
PARTICIPANT APPROVED COUNTER-PARTY TRADING

1. SCOPE.

- 1.1. This Tab Number 1 to the APX Master Terms and Conditions of Service sets forth the requirements, procedures, and protocols for the effective use of Participant Approved Counter-Party Trading services. Together with other applicable Tabs, the Master Service and Participation Agreement, and the APX Master Terms and Conditions of Service, all of which are expressly incorporated by reference, this Tab constitutes the entire agreement necessary to conduct Participant Approved Counter-Party Trading in the APX Markets.
- 1.2. References to a Section shall mean a Section of this Tab 1, unless otherwise agreed. In the event of conflict between this Tab 1 and the APX Master Terms, this Tab 1 shall control and take precedence. The Participant Approved Counter-Party Trading service is an APX Market within the meaning of that defined term.

2. DEFINITIONS.

- 2.1. The following defined terms supplement the Master Terms and are applicable to Participant Approved Counter-Party Trading in APX Markets in the United States and Canada.
- 2.1.1. "Delivery" means the actual or required exchange of electricity pursuant to a Contracted Order or otherwise.
- 2.1.2. "Monthly Invoice" means the APX electronic invoice summarizing a Participant's transactional activity for the month.

3. APPROVED COUNTER-PARTY CONTRACTING.

- 3.1. APX Participants may Contract in APX Markets via the Market Window on a Participant Approved Counter-Party basis for some or all of their APX Product Specification Sheet requirements, as each Participant may elect. In registering for Participant Approved Counter-Party Trades, a Participant will indicate what counter-party entities that registering Participant is accepting as a trading partner. A Participant may amend its Participant Approved Counter-Party registration statement via the APX Market Window from time to time as it may elect, thereby increasing or decreasing the number of Participant Approved Counter-Parties for that amending Participant. Changes are effective immediately upon receipt by APX. A Participant may also choose to use Participant Approved Counter-Party services solely, or in conjunction with, APX Managed Credit Services as described in Tab 3 to these APX Master Terms.
- 3.2. Participant Approved Counter-Party Trading must be by the mutual consent of both parties. When mutual consent is indicated to APX, the Participant's Market Window software will be enabled such that only the bids and asks of approved counter-parties may be Contracted, though all Orders from all Participants are viewable. As with APX Managed Credit Services, screen entries by others are anonymous to the Participant until Contracted by the Market Engine. Unlike APX Managed Credit Services, counter-party identity is revealed to each side after Contracting.
- 3.3. Approved Counter-Party Trading is unsecured and all Participants to such trading expressly agree to the following provisions:
- a.) each Participant is responsible to itself and the other party for full performance of the Contracted Order, whether entailing obligations to make or take Delivery, or actions to ensure transmission rights affecting Delivery;
  - b.) each Participant is free to alter the terms of the Contracted Order with their Participant Approved Counter-Party after the Contracted Order has been accepted by the Market Engine, in the same manner that they can alter any bilateral obligation;
  - c.) each Participant bears the risk of the other's default in making Delivery or taking Delivery;
  - d.) each Participant remains responsible for informing APX if the Contracted Order or any modification causes a change in APX Scheduling Services, and for payment of all applicable Scheduling fees occasioned thereby;
  - e.) each Participant acknowledges that in any dispute concerning a Participant Approved Counter-Party Contracted Order(s), APX cannot be a Party to the dispute, and can only confirm what the Market Engine recorded as the Contracted Order; and
  - f.) a Participant may not cycle their Participant Approved Counter-Party screen feature on and off as a way of discerning counter-party identity prior to Contracting. The ability to engage in such "togglng" is software limited as discussed in the APX Product Specification Sheet.
- 3.4. A Participant is permitted to use APX Services in part through Participant Approved Counter-Party Trading as it may elect, and as long as it has at least one Approved Counter-Party. In the event that a Participant shifts to APX Managed Credit Services, triggering

collateralization of trades encumbering credit, the provisions of the APX Master Terms and Tab 3 (APX Managed Credit Services) relating to Monetary Reserve Facility procedures apply, and control what actions APX and Participants are required to take.

- 3.5. A Participant who chooses to use the APX California Scheduling Service (APX SC ID) and/or the APX Qualified Scheduling Entity (QSE) Service must continue to maintain a Monetary Reserve Facility as described in Tab 3 (APX Managed Credit Services) even when they engage in Participant Approved Counterparty Trading.

4. PAYMENT.

- 4.1. Supplementing the Tab 4 description of APX Market Settlement and Billing processes, the following provisions specific to Participant Approved Counter-Party Trading applies to affected APX Participants:

- a.) Participant Approved Counter-Party transactions will be recorded and displayed for each Participant within the APX Market Window and the counter-party disclosure report prepared for each Participant.
- b.) In the event of a Participant Approved Counter-Party default, APX will not act to cure the default or minimize its effects on the parties to the defaulted Order or assure that payment to the non-defaulting party is made. APX' sole responsibility to the parties will be to confirm what the Contracted Order was as recorded by the APX Market Engine.
- c.) Participants are responsible to APX for the payment of fees associated solely with the amount of Contracted Order energy recorded by the APX Market Engine, regardless of the energy actually delivered and accepted. The Monthly Invoice will display the amount of APX fees owed for all energy transacted, while showing only APX-settled units of energy.

5. ADDENDA.

- 5.1. Unless expressly addressed, nothing herein shall be construed as a waiver of the Representations and Warranties given by the Parties in Section 4 of the APX Master Terms, or of the Code of Conduct requirements of Section 8 of the APX Master Terms.
- 5.2. For Participant Approved Counter-Party Trading only, the following Sections of the APX Master Terms and Conditions of Service do not apply:
- a.) 3.4 requiring that a Monetary Reserve Facility (MRF) be established.
  - b.) Tab 3 to these APX Master Terms addressing APX Managed Credit Services.

\* \* \* \* \*

AUTOMATED POWER EXCHANGE  
MASTER TERMS AND CONDITIONS OF SERVICE

1. SCOPE.

- 1.1. These APX Master Terms set forth the eligibility and operating requirements for utilization of the APX Services and Products. Together with the applicable APX Product and Service Tabs, these Master Terms are incorporated in and made a part of each Participant's Master Service Agreement, and may be revised from time to time. The current version of these APX Master Terms is available to Participants via the APX Internet Site or upon request from APX.
- 1.2. These APX Master Terms apply to each APX Market in which Participants are able to utilize APX Services or buy and sell Products. Additional terms, conditions, and requirements that apply to specific APX Services and Products are set forth in individual Tabs to these Master Terms, and are expressly incorporated into these APX Master Terms.
- 1.3. In the event of a conflict between these Master Terms and any applicable Tab, the applicable Tab requirements shall control.

2. DEFINITIONS.

- 2.1. Defined terms specific to individual APX Products and Services can be found in the applicable Tab. Initially capitalized terms used in these APX Master Terms and elsewhere in the Tabs shall have the meanings set forth below:
  - 2.1.1. "Affiliate" means any person or entity that is directly or indirectly controlled by, in control of, or under the common control of another.
  - 2.1.2. "APX" means Automated Power Exchange, Inc., a California corporation.
  - 2.1.3. "APX Internet Site" means the APX' site on the Internet at address [www.apx.com](http://www.apx.com).
  - 2.1.4. "APX Managed Credit Trading" means the trading activity of APX Market Participants under which said Participant posts credit which partially or wholly supports its Contracted position in the event of default by that Participant.
  - 2.1.5. "APX Market" means a set of available Products and/or Services for which there is a specific subject matter Tab.
  - 2.1.6. "APX Market Tab" means one or more subject matter supplements to these APX Master Terms which sets forth additional terms, conditions, and requirements applicable to the described APX Services and Products.
  - 2.1.7. "APX Market Engine" means the active server and software that administers APX Services and is owned and maintained by APX.
  - 2.1.8. "APX Market Window" means the software that provides the electronic interface between Participants and the APX Market Engine.
  - 2.1.9. "APX Master Service Agreement" means the Master Service and Participation Agreement entered into between the Participant and APX.
  - 2.1.10. "APX Product Specification Sheet" means that written descriptive statement of APX energy, capacity, transmission, and ancillary service products available to Participants, revised from time to time, and published on the APX website at [www.apx.com](http://www.apx.com).
  - 2.1.11. "APX Registration Statement" means the enrollment form that each Participant must complete prior to being eligible to use APX Services.
  - 2.1.12. "APX Services" means the services and associated Products that APX offers in each APX Market, as specified in the applicable Market Tab or APX Product Specification Data Sheets.
  - 2.1.13. "Contract," "Contracted," and "Contracting" describes the result of the APX Market Engine's matching one or more buy Orders with one or more sell Orders.
  - 2.1.14. "Contracted Order" means a contract that has been formed between one or more Participants that have submitted buy Orders and one or more Participants that have submitted sell Orders upon being Contracted by the APX Market Engine.
  - 2.1.15. "Control Area" means those facilities and intangible rights and operations that are controlled by a Control Area Operator.
  - 2.1.16. "Control Area Operator" means the entity that performs Control Area Services for a specific Control Area.



- 2.1.17. "Control Area Requirements" means all duly-constituted rules or equivalents that apply or govern Control Area Services, issued by proper authority.
- 2.1.18. "Control Area Services" means those services provided by the Control Area Operator to stabilize the performance of the electric grid.
- 2.1.19. "Depository" means Comerica Bank-California, a California bank corporation, or a successor entity appointed by APX.
- 2.1.20. "FERC" means the Federal Energy Regulatory Commission or its successor.
- 2.1.21. "Force Majeure" means an event or circumstance that is beyond the reasonable control of the affected Party and that could not have been avoided with the exercise of due diligence.
- 2.1.22. "Governmental Authority" means any federal, state, or local branch or unit of government, including FERC, SEC and CFTC, and any entity that is subject to regulation by any administrative agency as a public utility, including state and regional ISOs, ISAs, and RTOs.
- 2.1.23. "Insolvency Proceeding" means any case, action, or proceeding relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up, or any general assignment for the benefit of creditors.
- 2.1.24. "Law" means any law, treaty, code, rule, regulation, tariff, protocol, or judicial order binding upon APX, the Depository, or a Participant.
- 2.1.25. "Monetary Reserve Facility" means the financial arrangements made by a Participant in advance of registration as an APX Managed Credit Trading Participant using the APX Services.
- 2.1.26. "Order" means a Participant initiated buy Order or sell Order.
- 2.1.27. "Participant" means a person or entity that meets the eligibility requirements set forth in Section 3 below.
- 2.1.28. "Participant Approved Counter-Party Trading" means trading activity under which a Participant selects its counter-party from a Participant Approved Counter-Party list, and for which the selecting Participant bears the risk of counter-party default. The identity of the counter-party is disclosed upon formation of the Contracted Order.
- 2.1.29. "Party" means APX or a Participant.
- 2.1.30. "Products" means all units or packages of electrical power, including, but not limited to energy, capacity, transmission, or ancillary services or derivatives therefor, the purchase, sale and trading of which are supported or facilitated by the APX Market Window and APX Market Engine, as more particularly described in the APX Product Specification Data Sheets published from time to time. "Products" expressly excludes securities and futures contracts of any kind, and the trading of securities and futures contracts via the APX Market Window is prohibited. "Products" expressly excludes "swaps" as defined in 17 C.F.R. Part 35.
- 2.1.31. "Termination Date" means the date on which a Participant's APX Master Service Agreement is terminated.
- 2.2. In these APX Master Terms, unless the context otherwise requires:
- 2.2.1. Terms stated in the singular shall include the plural and the masculine shall include the feminine and neuter, and vice versa;
- 2.2.2. References to a Section, Exhibit, or Tab shall mean a Section, Exhibit, or Tab of these APX Master Terms.
- 2.2.3. The words "includes" or including" shall mean "including without limitation";
- 2.2.4. A reference to an agreement shall be to the agreement as amended or modified as of the date of reference;
- 2.2.5. References to any Law or Control Area Requirement shall be to such law or requirement as amended or modified as of the date of reference;

AUTOMATED POWER EXCHANGE  
MASTER TERMS AND CONDITIONS OF SERVICE

- 2.2.6. Any reference to a "person" includes any individual, partnership, firm, company, corporation, joint venture, trust or organization whether or not possessing separate legal personality;
- 2.2.7. Any reference to a day, week, or month shall be deemed to be a reference to a calendar day, week, or month; and
- 2.2.8. The terms "electricity" and "energy" are used interchangeably herein.

3. CONDITIONS OF ELIGIBILITY TO USE THE APX SERVICES

- 3.1. The certifications and representations contained in Section 4 below must be true and correct with respect to such person.
- 3.2. The person must obtain and maintain at its cost all required hardware, software, and communications links that are necessary to operate the APX Market Window and communicate with APX in accordance with these APX Master Terms.
- 3.3. The person must enter into and remain in compliance with an APX Master Service Agreement.
- 3.4. The person must establish and maintain a Monetary Reserve Facility that covers its monetary reserve requirements for APX Managed Credit Trading in accordance with the provisions of Tab 3 to these APX Master Terms.
- 3.5. The person must submit and update as required, a correct and complete APX Registration Statement encompassing all registered APX Services.
- 3.6. The person must be in compliance with all requirements of Law and Governmental Authority, including Control Area Requirements, if applicable.
- 3.7. When properly registered, APX will notify the person that it meets the eligibility requirements of a Participant for the designated APX Services, and will provide to such Participant its assigned system password(s).

4. REPRESENTATIONS AND WARRANTIES

4.1. Each Participant represents and warrants to APX the following:

- 4.1.1. The Participant has complied with all conditions of eligibility.
- 4.1.2. The Participant is not in violation of the Code of Conduct set forth in Section 8.
- 4.1.3. The Participant has not committed any act that would constitute a violation of these APX Master Terms.
- 4.1.4. The Participant will treat all information and materials provided or disclosed by APX as "APX Confidential Information" when designated as such, and if non-disclosure is not required by public law.
- 4.1.5. If the Participant will be selling electricity directly to any end-use customer, or purchasing power on its own behalf as an end-use customer, the Participant has complied with all requirements applicable to its area for retail suppliers and/or purchasers of electricity and related services.
- 4.1.6. No registered load of the Participant is ineligible for wholesale transmission service under the Federal Power Act.
- 4.1.7. The Participant is required to purchase and/or sell electricity, or enter into forward contracts for the same, in all places where the contract is made or will be performed.
- 4.1.8. The Participant has all licenses, authorizations, consents, and approvals to own its assets, conduct business, and to perform its obligations under the APX Master Service Agreement and these APX Master Terms.
- 4.1.9. Each Participant that submits an Order has or can obtain good title to the underlying energy or transmission rights that is the subject of the sell Order, and warrants that the Participant will make or take delivery of the energy as the case may be.
- 4.1.10. Where required, the Participant has complied with all Control Area Requirements.

4.2. APX represents and warrants to Participants the following:

- 4.2.1. APX is qualified to do business in those jurisdictions necessary to carry out all of its responsibilities under these APX Master Terms.

- 4.2.2. APX has all licenses, authorizations, consents, and approvals to own its assets, conduct business, and to perform its obligations hereunder.
- 4.2.3. APX is the sole owner of APX Market Engine and Market Window technology, and such technology does not infringe the patents of others.
- 4.2.4. APX will treat all Participant registration data, financial data, and APX Market activity and communications as "Participant Confidential Information", whether designated as confidential or not.
- 4.3. The representations and warranties set forth in Sections 4.1 and 4.2 are continuing representations and warranties, and are reaffirmed by each Participant and APX each time the Participant uses any APX Service.

#### 5. MONETARY RESERVE REQUIREMENTS

- 5.1 In order to secure its APX Market obligations, each Participant that is not engaged in Participant Approved Counter-Party Trading shall establish and maintain a Monetary Reserve Facility that meets the requirements of Tab 3 to these APX Master Terms. The Monetary Reserve Facility may be in the form of an irrevocable and unconditional letter of credit or cash deposit in a monetary reserve account at the Depository.
- 5.2 A Monetary Reserve Facility is not required for an APX Participant engaged in Participant Approved Counter-Party trading in any APX Market.
- 5.3 APX shall only initiate a draw upon the Participant's Monetary Reserve Facility under the circumstances described in Tab 3 and Tab 4.
- 5.4 APX reserves the right to set and modify the Monetary Reserve Facility criteria from time to time in its reasonable discretion.

#### 6. APX PRODUCTS AND SERVICES

- 6.1. Registered Participants shall be eligible to utilize the APX Market Window to purchase, sell or trade the APX products described in the APX Product Specification Sheets, or use the APX Services, each of which is more fully described in the indicated Tab to these APX Master Terms.
- 6.2. Participant Approved Counter-Party Trading: Tab 1
- 6.3. Schedule Coordination Services: Tab 2
- 6.4. APX Credit Management Services: Tab 3
- 6.5. APX Settlement and Billing Services: Tab 4
- 6.6. APX Product and Service Fee Schedule: Tab 5
- 6.7. APX Telephone Brokering Service: Tab 6

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7. SOFTWARE LICENSING AGREEMENT

- 7.1. Subject to the terms and conditions of these Master Terms and any modifications contained in the Master Service Agreement, APX grants to each registered Participant a restricted, nonexclusive, nontransferable right to use the APX Market Window software (in executable code form only) at the Participant's designated sites on up to ten (10) designated computers.
- 7.2. Without the prior written consent of APX, no Participant shall (i) copy all or any portion of the Market Window; (ii) decompile or disassemble the APX Market Window or attempt to determine any source code, algorithms, methods or techniques embodied in the Market Window; (iii) modify, translate, or create any derivative works based upon the Market Window; (iv) distribute, disclose, market, sell, rent, lease, assign, sublicense, transfer, convey or pledge to transfer the Market Window in whole or part to any third party; (v) remove or alter any copyright, trademark, trade name or other proprietary notices and legends appearing on or in copies of the Market Window; (vi) allow remote access or transfer the Market Window software to any computer other than the Participant's ten designated computers; (vii) incorporate the APX Market Window into any other program or product; (viii) use the Market Window other than in accordance with these APX Master Terms. Participant employees, Agents, Independent Contractors, and affiliates are subject to the same exclusions to the extent that they are required to use Participant's licensed Market Window.
- 7.3. As between APX and Participants, APX retains all right, title and interest in and to the APX Market Window, including any derivative works thereof. APX retains all right, title, and interest in its Applications Program Interface ("API"), and shares title with Participants in any API derivative works. Participant agrees not to take any action to jeopardize, limit or interfere with APX' ownership rights of the Market Window or derivative works thereof.
- 7.4. APX may from time to time deliver to Participants modifications or new releases of the APX Market Window. Before doing so, APX will provide notice to affected Participants. These APX Master Terms shall apply to such modifications and/or new release as if part of the original license grant. APX will fully support at its cost only the current software release and the immediately preceding version.
- 7.5. Any APX Market Window software or documentation that is provided to or on behalf of the United States of America, its agencies and/or instrumentalities ("U.S. Government") is provided with Restricted Rights as that term is used in Part 27 of the Federal Acquisition Regulations ("FAR"). Use, duplication, or disclosure is subject to all of the restrictions contained in the FAR, and any DOD or other agency FAR supplements.
- 7.6. Each Participant must routinely monitor its market position(s) via the APX Market Window, and promptly notify APX if it encounters any material difficulty in using the APX Market Window. APX will attempt to correct any material problems, errors, or bugs that are reported, take reasonable steps to mitigate the effects of any such problems, and forward any resulting modifications to affected Participants. Under no circumstances will APX be responsible for any costs or damages that result from a Participant's inability to use the APX Market Window, except as set forth in Section 14 of these APX Master Terms. In the event that the APX Market Window malfunctions or becomes inoperable due to the negligent or wrongful act or omission of a Participant or a condition associated with Participant's hardware, software, or data communications equipment, the Participant shall reimburse APX for all costs incurred by APX in fixing such malfunction or inoperability.

8. CODE OF CONDUCT

- 8.1. At all times during the term of its APX Master Service Agreement, APX and each participant shall comply with all applicable Laws and Control Area Requirements that relate to or have an impact upon the parties performance hereunder.
- 8.2. No Participant shall take any action that would undermine or improperly manipulate any APX service, any Participant, the Depository, or APX. This includes, but is not limited to, self-dealing in one's own name or through intermediaries established or used for that purpose.
- 8.3. No Participant shall take any action that would cause APX or other Participant to violate any Law, Control Area Requirement, or these Master Terms.
- 8.4. Each Participant shall at all times respond to any communication from APX and/or their respective agents or representatives in a timely manner. To facilitate communications timeliness, each Participant will regularly monitor its market position(s) via the APX Market Window.
- 8.5. APX and each Participant shall permit their market communications to each other to be recorded in accordance with state and federal law.

- 8.6. No Participant shall own or control or hold with power to vote more than ten percent of APX shares.
- 8.7. APX and its employees and directors shall be prohibited from buying or selling a commodity or product for which APX operates an exchange.
- 8.8. APX and its employees and directors shall be prohibited from owning or controlling a material interest in any entity that buys or sells commodities or products in the APX Markets, or in the markets of any Affiliates.
- 8.9. APX and its employees and directors shall be prohibited from serving as an employee, agent, representative or Board member of any entity that is an APX Market Participant.
- 8.10. APX shall at all times maintain and enforce a code of conduct for its directors, employees, and contractors. APX shall make available to any Participant a copy of the current APX internal code of conduct upon written request.

#### 9. AMENDMENT AND MODIFICATION OF TERMS

- 9.1. APX may, in its reasonable discretion, modify or amend these APX Master Terms from time to time. In such event, APX will transmit notice to Participants at least thirty days before the date on which such amendment or modification will go into effect.
- 9.2. Any modification or amendment to these APX Master Terms will be prospective only and shall not apply to any Contracted Orders, but shall be binding upon Participants and APX for all orders consummated after the effective date of the amendment or modification. Once a properly noticed amendment or modification becomes effective, a Participant's submission of any Order or use of any APX Service shall operate as an acceptance by such Participant of, and agreement to be bound by, the amendment or modification.
- 9.3. Notwithstanding the foregoing, in the event of an emergency, as determined by APX in its reasonable discretion, APX shall have the right to modify the APX Master Terms and any applicable Tabs without notice in order to respond to the emergency. Any such amendment shall apply to all unperformed Contracted Orders, and to other ongoing transactions and activities of APX Market Participants, as circumstances warrant. To the extent practicable, APX will consider all Participant's interests in an emergency and will act reasonably during such emergency and in actions thereafter.
- 9.4. APX may, in its reasonable discretion modify its APX Product Specifications Sheets and re-publish the same on the APX Internet Site without giving the thirty days advance notice to Participants applicable to contract terms modifications.

#### 10. SUSPENSION OF ELIGIBILITY

- 10.1. APX may suspend the eligibility of a Participant to use one or more of the APX Services at any time without liability of any kind to the Participant if;

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- a. the Participant fails to comply with any provision of the Code of Conduct set forth in Section 8 above;
- b. the Participant fails to satisfy any condition of eligibility set forth in Section 3;
- c. any representation or warranty made by the Participant in Section 4 ceases to be true and correct in any material way;
- d. the Participant takes any action in derogation of APX' rights in or to the APX Market Window;
- e. the Participant fails to maintain an adequate Monetary Reserve Facility (MRF) where required to do so to engage in APX Managed Credit Trading, or acts to limit APX access to the Participant' MRF; or
- f. the Participant ceases to be solvent, voluntarily ceases conducting business, or commences any Insolvency Proceeding.

10.2. In the event that APX suspends a Participant's eligibility to use APX Services, APX may terminate the Master Service Agreement without liability.

10.3. Upon suspension of a Participant under this Section, APX will notify the Participant as soon as practicable, and the Participant will continue to be responsible for all amounts owing in connection with the Participant's use of APX Services.

11. TERMINATION OF THE APX MASTER SERVICE AGREEMENT

11.1. Termination by APX: APX may terminate a Participant's Master Service Agreement at any time for the reasons stated in Section 10.1 above.

11.2. Terminated by Participant: a Participant may terminate its Master Service Agreement at any time with written notice to APX of Termination Date.

11.3. Effect of Termination:

- a. the eligibility of the Participant to use APX Services shall cease;
- b. the provisions of the APX Master Terms and Service Agreement shall remain effective until all financial obligations have been discharged;
- c. within 30 days after termination, the Participant must deliver or destroy all copies of the APX Market Window and certify to the same;
- d. the Participant must immediately render payment for all amounts owing under these APX Master Terms and will be entitled to receive any amounts owing to the Participant by the next ordinary payment receipt date established by these APX Market Terms;
- e. the Participant will refrain from any action that would interfere with APX' access to the Participant's Monetary Reserve Facility; and
- f. the provisions of these APX Master Terms requiring performance after termination will be deemed effective and operative.

12. FORCE MAJEURE

12.1. No Party will be considered in default of any obligation if prevented from fulfilling such obligation by Force Majeure. Notwithstanding the foregoing, no Participant shall be excused from any obligation to render payment due to APX in connection with the use of APX Services, or from continuing to comply with the code of conduct provisions of Section 8 that are unaffected by the circumstances of the Force Majeure. Unless the nature of the product defined in the APX Product Specification Sheet permits it, Force Majeure shall NOT be claimed by any Participant based upon purely economic considerations such as (i.) loss of Buyer's markets; (ii.) buyer's inability to economically use or re-sell the purchased energy product(s); (iii.) the loss of Seller's supply; or (iv.) Seller's ability to sell the product to a different Buyer under more attractive terms.

12.2. In the event of a Force Majeure that prevents a Party from performing any of its obligations under these Master Terms, the Party shall:

- a. notify the other Party in writing as soon as commercially practicable;
- b. use commercially reasonable efforts to mitigate the effects of such Force Majeure, and act to resume performance as soon as possible;
- c. not be entitled to suspend performance in any greater scope or for any longer duration than reasonably required by the Force

Majeure;

- d. keep the other Party apprised of the mitigation and restoration efforts initiated by the Party;
- e. provide written notice of the resumption of full performance to the other Party.

12.3. Notwithstanding the foregoing, the settlement of any strike, lockout, or labor dispute constituting a Force Majeure shall be within the sole discretion of the Party involved in such labor dispute, and the obligation to use commercially reasonable efforts to resolve or remedy does not apply.

#### 13. INDEMNIFICATION

13.1. To the fullest extent permitted by Law, each Participant shall indemnify and hold harmless APX, its Affiliates, agents, officers and employees from any and all claims, costs, and expenses incurred by them to the extent caused wholly or in part by any act or omission by the Participant, its Affiliates, agents, officers, and employees, except to the extent such claim is caused by the negligence or willful misconduct of APX. Each Participant's obligation to indemnify under this Section shall survive termination of the Participant's APX Master Service Agreement, and shall not be limited in any way by amount or type of damages.

13.2. In addition to the foregoing, to the fullest extent permitted by Law, each Participant shall also indemnify APX from any and all claims caused wholly or in part by any error or omission in the information that the Participant submits to APX for further transmittal to a Control Area Operator.

13.3. To the fullest extent permitted by Law, APX shall indemnify and hold harmless a Participant, its Affiliates, agents, officers and employees from any and all claims, costs and expenses incurred by them to the extent caused wholly or in part by any act or omission of APX, its affiliates, agents, officers and employees, except to the extent such claim is caused by the negligence or willful misconduct of Participant, APX' obligation to indemnify under this Section shall survive termination of Participant's APX Master Service Agreement and shall at all times be subject to the Section 14 limitation of liability.

13.4. APX shall indemnify and hold harmless a Participant from all claims, costs and expenses to the extent caused wholly or in part by APX' breach of or infringement upon any third party's copyright, trademark, patent or other intellectual property right.

#### 14. LIMITATION OF LIABILITY

14.1. THE APX SERVICES ARE PROVIDED "AS IS" FOR USE IN AN ELECTRONIC TRADING ENVIRONMENT. APX DISCLAIMS ALL REPRESENTATIONS AND WARRANTIES, WHETHER EXPRESS OR IMPLIED, RELATING TO APX SERVICES, INCLUDING ANY WARRANTIES OF DESIGN, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR WARRANTIES ARISING FROM ANY CLAIMED COURSE OF DEALING, COURSE OF PERFORMANCE, USAGE OR TRADE PRACTICE, APX MAKES NO REPRESENTATIONS THAT THE APX SERVICES WILL OPERATE WITHOUT INTERRUPTION OR BE ERROR FREE.

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- 14.2. EXCEPT FOR DISCLAIMED SOFTWARE DESIGN AND/OR PERFORMANCE, ANY CLAIM ARISING FROM ALL ALLEGATION OF APX' NEGLIGENCE, OR FROM AN ALLEGATION OF BREACH OF CONTRACT BY APX, SHALL BE SUBJECT TO THE FOLLOWING LIMITATIONS: (I) NO SUCH CLAIM MAY BE BROUGHT FOR APX ACTS OR FAILURES TO ACT OCCURRING DURING THE FIRST 90 DAYS OF PARTICIPANT'S REGISTRATION AS AN APX PARTICIPANT; (II) NO SUCH CLAIM RELATING TO A SINGLE SET OF FACTS OR OCCURRENCES MAY BE BROUGHT AGAINST APX IF IT INVOLVES LESS THAN \$5,000 (PARTICIPANTS SHALL NOT COMBINE CLAIMS INVOLVING DIFFERENT SETS OF FACTS AS A MEANS OF AVOIDING THIS LIMITATION); (III) APX' MAXIMUM LIABILITY TO ANY PARTICIPANT FOR ANY AND ALL SUCH CLAIMS IN A GIVEN CALENDAR YEAR SHALL NOT EXCEED THE LESSER OF \$50,000 OR SIX MONTHS OF APX FEES MEASURED BY THE MOST RECENTLY COMPLETED SIX FULL CALENDAR MONTHS PRECEDING THE EVENT OF LIABILITY; AND (IV) ANY SUCH CLAIM MUST BE BROUGHT WITHIN SIX MONTHS AFTER THE EVENT GIVING RISE TO THE CLAIM. IF ANY SUCH CLAIM IS NOT BROUGHT WITHIN SUCH SIX MONTH PERIOD, THE RIGHT TO DO SO SHALL BE DEEMED WAIVED, IRRESPECTIVE OF ANY DIFFERENT TIME LIMIT SET FORTH IN ANY STATUTE OF LIMITATIONS THAT OTHERWISE WOULD APPLY, WITH RESPECT TO CLAIMS THAT ARE SUBJECT TO THE LIMITS SET FORTH IN THIS SECTION 14.2, EACH PARTICIPANT ACKNOWLEDGES THAT; (I) IT MAY HAVE SUCH A CLAIM THAT INVOLVES LESS THAN \$5,000 AND (II) IT MAY HAVE CLAIMS IN ANY GIVEN CALENDAR YEAR THAT INDIVIDUALLY OR COLLECTIVELY INVOLVE MORE THAN \$50,000 AND EXPRESSLY WAIVES ITS RIGHT TO PURSUE ANY SUCH CLAIM TO THE EXTENT THAT IT EXCEEDS SUCH LIMITS.
- 14.3. NO PARTY SHALL BE LIABLE TO ANOTHER FOR SPECIAL, INDIRECT, CONSEQUENTIAL, PUNITIVE OR EXEMPLARY DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY STATUTORY LIABILITY OR OTHERWISE, ARISING OUT OF OR IN CONNECTION WITH THE USE OF APX SERVICES UNDER THESE MASTER TERMS, ANY APPLICABLE TABS, OR THE MASTER SERVICE AGREEMENT, INCLUDING ANY LOSS OF PROFITS, EARNINGS, REVENUE, USE, DATA, CONTRACT, OR GOODWILL, EVEN IF A PARTY HAS KNOWLEDGE OF THE POSSIBILITY OF SUCH DAMAGES.

16. DISPUTES RESOLUTION

- 15.1. In all disputes arising from a Participant's use of any APX Services, the aggrieved Party shall notify the other Party(s) in writing of the nature of the dispute with as much detail as possible. A duly-authorized representative of each Party possessing full authority to resolve the dispute shall meet in person or by telephone within 14 days after the date of written notice in order to reach an agreement resolving the dispute. If the Parties' representatives cannot resolve the dispute or agree upon a written corrective action plan within 7 days after their initial meeting, or any mutual extension of time, then either Party may request contractual arbitration as provided in Section 15.2. Neither Party shall initiate arbitration unless the process described in this Section 15.1 has been employed or waived.
- 15.2. Any controversy or claim between the Parties arising out of or relating to APX Services under these Master Terms, including applicable Tabs, shall be subject to mandatory binding arbitration in accordance with the United States Arbitration Act, and under the auspices and the commercial rules and procedures of the American Arbitration Association then in effect. If APX is a party to the dispute, the arbitration shall be conducted in San Francisco, California; if APX is not a party to the dispute, the arbitration can be conducted at such place and time as the Parties may elect. Each Party may serve a single request for production of documents, and any disputes regarding document production shall be resolved by the arbitrator(s). The arbitrators shall give effect to statutes of limitation in determining any claim, and shall deliver a written opinion setting forth findings of fact, conclusions of law and the rationale for the decision. The arbitrators shall reconsider the decision only once upon proper motion and at the expense of the Party requesting reconsideration. Judgement upon the decision rendered may be entered in any court having jurisdiction. Section 4 requirements of confidentiality apply to the arbitration proceeding, all evidence taken, and the opinion of the arbitrators. Confidential information may be disclosed in camera and under seal to the arbitrators and in any subsequent judicial action to enforce the arbitration award or order.
- 15.3. No provision of this Section 15 shall limit the right of either Party to obtain provisional or ancillary remedies from a court of competent jurisdiction before, after, or during pendency of any arbitration, except that no Party may seek to avoid binding arbitration. The exercise of a remedy does not waive the right of either Party to resort to arbitration.

16. MISCELLANEOUS

- 16.1. APX has entered into the APX Master Service Agreement and agreed to provide APX Services based on and in reliance upon the continuation of Laws and regulatory policies in effect as of the date of each Participant's Master Service Agreement. If such Laws change in a manner that renders any portion of these Master Terms, applicable Tabs, or the Master Service Agreement illegal, unenforceable, or financially impracticable, then APX shall have the right to modify the Master Service Agreement or terminate it altogether as



circumstances may reasonably require.

- 16.2. Any waiver of any provision under these APX Master Terms, applicable Tabs, or the Master Service Agreement must be in writing and will not be implied by any usage of trade, course of dealing or course of performance. Any delay in exercising a right or remedy under these terms shall not imply a waiver of those rights and remedies. Any express waiver of such rights and/or remedy shall not be construed as a continuing waiver.
- 16.3. In the event that one or more of the provisions of these APX Master Terms, applicable Tabs, or the APX Master Service Agreement shall for any reason be held to be unenforceable, such unenforceability shall not affect any other provision, and the contract shall be construed as if the unenforceable provisions had never been contained in the contract terms.
- 16.4. APX and each Participant expressly acknowledge that time is of the essence in the performance of their respective obligations under these APX Master Terms, applicable Tabs, and the APX Master Service Agreement.
- 16.5. APX and each Participant shall comply with all Laws and Control Area Requirements as they relate to performance hereunder.
- 16.6. The remedies provided under these APX Master Terms and Master Service Agreement shall be cumulative and not exclusive, and the election of one remedy shall not preclude pursuit of other remedies. In arbitration a Party may seek any remedy generally available under governing law.
- 16.7. THE APX MASTER SERVICE AGREEMENT, THESE APX MASTER TERMS, AND ALL APPLICABLE TABS SHALL BE GOVERNED BY, AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA, EXCLUDING ANY CHOICE OF LAW RULES THAT DIRECT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION IRRESPECTIVE OF THE PLACE OF EXECUTION OR PERFORMANCE. Unless APX is not a party, any legal action or proceeding with respect to these APX Master Terms, the Master Service Agreement, and any applicable Tabs must be brought in the courts of the State of California or if the United States in the Northern District of California. By execution and delivery of the APX Master Service Agreement, APX and each Participant consent for themselves and in respect of their property, to the exclusive jurisdiction of those courts. APX and each Participant irrevocably waive any objection which they may now or hereafter have to the bringing of any action or proceeding exclusively in California state or federal judicial forums.

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- 16.8. Nothing in these APX Master Terms, the APX Master Service Agreement, or applicable Tabs shall be construed as creating a partnership, trust, joint venture or any similar relationship between APX and any Participant. Except as authorized by the procedures necessary to perform certain APX Services described in the Schedule Coordinator Services Tab (Tab 2), no Party is authorized to act on behalf of the other Party, and none shall be considered the agent of the other.
- 16.9. These APX Master Terms, the APX Master Service Agreement and all applicable Tabs are made and entered into for the sole protection and legal benefit of the Parties, their successors and assigns. No other person shall be a director or indirect legal beneficiary of, or have any cause of action, claim, or entitlement in connection with APX Services. No customer of Participant shall have any rights against APX in connection with such Participant's use of any APX Service.
- 16.10. APX shall have the right to offset, or to direct the Depository to offset, against any amounts owing to a Participant as a result of its use of APX Services amounts owed to APX or other participants.
- 16.11. No party shall assign or delegate any of its rights or obligations under the APX Master Service Agreement, these APX Master Terms, or applicable Tabs, without the prior written consent of the other, which consent will not be unreasonably withheld. Absent the prior written consent of the other Party, any attempted assignment shall be void and of no force or effect.
- 16.12. Any default under these APX Master Terms, the Master Service Agreement, or applicable Tabs shall be considered a default of the others and shall entitle the parties to exercise such rights as are available herein and therein.
- 16.13. APX may establish such rules, orders, procedures or protocols related to the APX Services as it deems reasonable and necessary from time to time, and shall transmit such items to Participants via the APX Market Window. Participants shall comply with requirements of such transmitted items, whether such transmittals are actually reviewed, received or acknowledged.
- 16.14. Each Party shall do all necessary acts and make, execute, and deliver such written instruments as shall from time to time be reasonably required to carry out the terms of these APX Master Terms, the APX Master Service Agreement and applicable Tabs.
- 16.15. These APX Master Terms, the APX Master Service Agreement, and applicable APX Tabs constitute the entire agreement and understanding of the APX and each Participant, and merge and supercede all prior or contemporaneous agreements, understandings, commitments, representations and discussions relating to the subject matter hereof.

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AUTOMATED POWER EXCHANGE  
MASTER TERMS AND CONDITIONS: TAB 2  
CALIFORNIA SCHEDULING SERVICES

1. SCOPE.

- 1.1. This Tab to the APX Master Terms and Conditions of Service sets forth the requirements, procedures, and protocols for the effective use of APX California Scheduling Services. Together with other applicable Tabs, the Master Service and Participation Agreement, and the APX Master Terms and Conditions of Service, all of which are expressly incorporated by reference, this Tab constitutes the entire agreement necessary to obtain California Scheduling Services.
- 1.2. References to a Section shall mean a Section of this Tab 2, unless otherwise agreed. In the event of conflict between this Tab 2 and the APX Master Terms, this Tab 2 shall control and take precedence. APX California Scheduling Service is an APX Market within the meaning of that defined term.

2. DEFINITIONS.

- 2.1. "Ancillary Services" has the meaning set forth in the Independent System Operator (ISO) Tariff.
- 2.2. "APX California Scheduling Service (APX SC ID)" means the service described in Section 3.2.
- 2.3. "APX California Scheduling Service (Participant SC ID)" means the service described in Section 3.3 and for which APX is acting as the Participant's Scheduling Coordinator Agent.
- 2.4. "APX California Services" means the APX California products for energy, capacity, transmission, ancillary services and green energy tickets; APX California Scheduling Service (APX SC ID); and APX California Scheduling Service (Participant SC ID).
- 2.5. "Congestion Zones" means the Zones and interconnection points that are specified as congestion zones by the ISO from time to time.
- 2.6. "Control Area Operator" means the California ISO in California.
- 2.7. "Delivery Point" means the point at which electricity is injected into the ISO Controlled Grid.
- 2.8. "Delivery Day" means a day on which delivery of energy occurs in the time zone of the buyer or buyer's designee.
- 2.9. "Deviation" means the difference between Scheduled and metered electric energy deliveries.
- 2.10. "End-Use Meter" has the meaning set forth in the ISO Tariff.
- 2.11. "Export" has the meaning set forth in the ISO Tariff.
- 2.12. "Generation Meter" has the meaning set forth in the ISO Tariff.
- 2.13. "Generator" means an entity that owns, operates, controls or has the right to sell or dispose of output from a generating unit.
- 2.14. "Import" has the meaning set forth in the ISO Tariff.
- 2.15. "ISO" means the California Independent System Operator for APX California Services.
- 2.16. "ISO Charges" means the authorized regulatory charges the ISO is permitted to indirectly charge Participants via their Scheduling Coordinator for grid operations and management, including but not limited to charges for wheeling access.
- 2.17. "ISO Controlled Grid" is that part of the electricity transmission system for which the ISO is authorized to regulate and control performance reliability.
- 2.18. "Load" has the meaning set forth in the ISO Tariff.
- 2.19. "Meter Aggregation Service Provider" (MASP) means an entity hired by the Participant and approved by APX that prepares Settlement Quality Meter Data.
- 2.20. "Meter Data Management Agent" (MDMA) means an entity hired by the Participant and approved by APX that provides meter installations, meter reading, and contributes to the preparation of Settlement Quality Meter Data.
- 2.21. "Net Physical Position" means the net quantity of energy to be Delivered to or by a Registered Facility at any given time, taking into account all of Participant's Contracted Orders and positions in the APX Market.
- 2.22. "Pass-Through Charges" means all charges and taxes levied by a Control Area Operator or any Governmental Authority in connection with (I) the purchase, sale, delivery and use of the APX Products; or (ii) the use of any APX Service, including Control Area Operator Charges, taxes, fees, franchise fees, or utility user taxes, whether actually

levied or imputed.

- 2.23. "Pass-Through Payments" means all payments from a Control Area Operator, or any other entity, to APX for a Participant in connection with such Participant's use of APX Services, that APX agrees to accept and pass on to the Participant.
- 2.24. "Receipt Point" means the point at which electricity is removed from the ISO Controlled Grid.
- 2.25. "Registered Export" means an Export for which APX is designated as the SC or SC Agent.
- 2.26. "Registered Facility" means any registered Generating unit, Load, Export, Import or Transfer Point where APX is designated as the SC or SC Agent.
- 2.27. "Registered Import" means an Import for which APX is designated as the SC or SC Agent.
- 2.28. "Registered Transfer Point" means any Congestion Zone in which a SC can transfer electricity to or from an APX SC ID or a Participant SC ID in accordance with the Participant's Transfer Schedule indicated on their APX Registration Statement.
- 2.29. "Schedule" has the meaning set forth in the ISO Tariff.
- 2.30. "Scheduling Coordinator" (SC) has the meaning set forth in the ISO Tariff.
- 2.31. "Scheduling Coordinator Agent" (SC Agent) means a Participant SC ID that has been certified by the ISO and for which APX is performing the APX California Scheduling Service (Participant SC ID) behind this SC ID.
- 2.32. "Settlement Quality Meter Data" (SQMD) means meter data that is load-profiled (if necessary), adjusted for distribution line losses, aggregated to the level at which Orders for a Registered Facility are submitted, and submitted to the ISO in a specified format by a required due date.
- 2.33. "Take-Out Point" has the meaning set forth in the ISO Tariff.
- 2.34. "Transfer Schedule" has the meaning set forth in the ISO Tariff.
- 2.35. "True-Up Amount" means the amount credited or debited to reflect either SQMD or ISO Charges after delivery.
- 2.36. "Zone" has the meaning set forth in the ISO Tariff.

### 3. SCHEDULING SERVICES.

- 3.1. APX offers two types of Scheduling Coordinator Services: APX California Scheduling Service (APX SC ID) and APX California Scheduling Service (Participant SC ID), collectively known as the APX California Scheduling Services.
- 3.2. Upon being designated by a Participant as the Scheduling Coordinator for a Registered Facility, , APX will act as the Scheduling Coordinator in compliance with ISO Tariffs then in effect. APX will act to fulfill its obligations to develop Schedules under an APX SC ID, transmit them to the ISO, and act on instructions received. A Participant that desires to utilize the APX California Scheduling Services must submit an APX Registration Statement, designating APX as their Schedule Coordinator.

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MASTER TERMS AND CONDITIONS: TAB 2  
CALIFORNIA SCHEDULING SERVICES

The appointment of APX as a Participant's SC remains in effect until terminated or modified by either Party. If APX is the SC for a Participant engaged in block forward trading using Participant Approved Counter-Party Trading, APX will encumber credit five (5) days prior to the traded energy going to physical delivery. If APX is not the SC at the time for encumbering monthly block forward credit, APX will not encumber credit or submit physical delivery Schedules to the Control Area Operator.

- 3.3. Upon being designated by a Participant as the Scheduling Coordinator Agent for a Registered Facility, APX will act as the SC Agent in compliance with ISO Tariffs then in effect. APX will act to fulfill its obligations to develop Schedules under the Participant SC ID, transmit them to the ISO and act on instructions received. A Participant that desires to utilize the APX California Scheduling Services must submit an APX Registration Statement, designating APX as their Scheduling Coordinator Agent. The appointment of APX as a Participant's SC Agent remains in effect until terminated or modified by either Party.
- 3.4. A Participant for whom APX performs APX California Scheduling Services must:
- a. Complete a Registration Statement authorizing specific types of Schedules to be submitted by APX;
  - b. Submit a fully balanced Schedule to APX in time for APX to submit the Schedule to the ISO;
  - c. Provide sufficient information to APX to enable timely submission of a complete Schedule, inclusive of quantity, Delivery Point, Receipt Point and such other information as APX or the ISO requires; and
  - d. Use the appropriate loss calculation methodology specified by ISO Tariff in preparing Schedule data. Once a Participant has provided APX with the information described above, APX will submit a Schedule for the Participant's Registered Facility, at each opportunity provided by the ISO. Such Schedules shall reflect the Net Physical Position of each Registered Facility.

4. APX CALIFORNIA SCHEDULING SERVICE (APX SC ID) - OPERATIONAL REQUIREMENTS.

- 4.1. In addition to the eligibility requirements of Section 3 of the APX Master Terms, to be eligible to use APX California Scheduling Service (APX SC ID), a Participant must:
- a. Designate APX as the Scheduling Coordinator for specified Generators, Loads, Exports, Imports and Transfer Points in its APX Registration Statement;
  - b. Provide all information that APX reasonably needs to comply with the ISO Tariff; and
  - c. For Registered Loads, provide monthly energy consumption data, peak energy demand data from interval meters, and the rate schedule for that load under which it has taken service for the preceding 12 months.
- 4.2. If any material modification is made to a Participant's Registered Facility, the Participant shall inform APX by a written change to its then current APX Registration Statement.
- 4.3. By virtue of its use of APX California Scheduling Service, each Participant grants to APX all agency authority necessary to comply with the ISO Tariff as a Scheduling Coordinator.
- 4.4. Each Participant has a contractual obligation to take or Deliver the amount of energy specified in any Schedule submitted to the ISO by APX on behalf of the registered Participant. In the event of a Deviation, including a Deviation resulting from a Participant's failure to Schedule a Delivery with APX, the Participant must pay a charge or receive a credit, as the case may be, to reflect associated True-Up Amounts and ISO Charges.
- 4.5. With respect to any Schedule that APX submits to the ISO on a Participant's behalf, as well as related Deliveries required under Schedules submitted, the Participant shall be solely responsible for all charges imposed on APX by the ISO and all APX fees associated with such Schedule or related Deliveries.
- 4.6. Except to the extent a Participant self-provides Ancillary Services, for any Schedule that APX submits on behalf of a Registered Load or Registered Export, the Participant shall be liable for its pro rata portion of all charges for Ancillary Services that are incurred by all APX Registered loads and Registered Exports. Such pro rata portion shall be determined by a comparison of the relative Net Physical Position of such Participant's respective Load and Exports.
- 4.7. In providing APX California Scheduling Service to a given Participant, APX will endeavor to:

- a. Submit required Schedules to the ISO using an APX SC ID.
  - b. Transmit Ancillary Service bids for Participant's Registered Facility to the ISO, and pass ISO acceptance, instructions, payments, fees, and charges, if any, back to the Participant.
  - c. Transmit error messages generated by the ISO's Schedule validation checks to the Participant, as received by APX;
  - d. Transmit applicable messages sent by the ISO to the Participant, as received by APX;
  - e. If applicable, relay Settlement Quality Meter Data provided by the Participant (or its MDMA) to the ISO or equivalent;
  - f. If applicable, relay Settlement Quality Meter Data provided by the ISO to the Participant (or its MDMA); and
  - g. Calculate, bill and collect from the Participant any Pass-Through Charges owing, including imputed Control Area Operator charges.
  - h. Calculate, bill and collect from the ISO any Pass-Through Payments owed to the Participant.
- 4.8. All communications (including bids) that APX is to transmit to the ISO on behalf of Participants must be received via the APX Market Window or other means approved by APX in its reasonable discretion.
- 4.9. APX will Schedule a Registered Generator that is committed to Regulatory Must-Take, Regulatory Must-Run, or Reliability Must-Run Generation only on the basis of Net Physical Position. Each Participant that is so Scheduled is responsible for ensuring that the Net Physical Position is and remains adequate to comply with all requirements of Law or contract.
- 4.10. When APX is acting as SC in a Transfer Schedule, APX will notify the counterpart SC of the Net Physical Position of the Registered Transfer Point and the Zone associated with the Transfer Schedule when it appears that there is a mismatch. APX will submit settled Transfer Schedules to the ISO at each opportunity provided for submitting Schedules, and is authorized to submit the Transfer Schedule to the ISO whether it has received counterpart SC confirmation or not. In the event of a discrepancy between the Net Physical Position and/or Zone reported by APX and the counterpart SC, APX will apply commercially reasonable efforts to resolve such discrepancy. If a discrepancy cannot be resolved in time for submittal to the ISO, APX will submit the Transfer Schedule it has and shall not be responsible for any later discovered inaccuracy in the counterpart SC's information.
5. APX CALIFORNIA SCHEDULING SERVICE (APX SC ID) - METERING AND METER DATA REQUIREMENTS.
- 5.1. Each Participant who uses APX Scheduling Coordinator Services, including APX Bilateral Contract Scheduling Services, must ensure that each Registered Facility has in place and maintains all metering equipment and facilities required to comply with

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ISO Tariffs and applicable Law. Also, each Registered Facility that requires a Meter Data Management Agent (MDMA) must arrange for services from an MDMA that is certified by appropriate regulatory authority and approved by APX in its reasonable discretion. In addition, each Registered Facility that requires a Meter Aggregation Service Provider (MASP) must arrange for services from a MASP that is certified by appropriate authority and approved by APX in its reasonable discretion. Lastly, each Participant must provide meter registration data that includes meter identification serial number, demand zone for that meter(s), start date, end date and other related data prior to the effective date of the meter, for each Registered Generating Unit's Generation Meter and each Registered Load's End-Use Meter. Periodic update of meter identification data changes on the 1st and 15(th) of each month is an on-going requirement, and no meter will be accepted for registration after its start date. Participants who provide late or erroneous meter data will incur a meter data adjustment charge. APX reserves the right to decline Scheduling Coordinator responsibility for any meter(s) registered late, or any meter for which required credit has not been posted by the meter start date.

- 5.2. For each Registered Load, the respective Participant must ensure that APX is provided Settlement Quality Meter Data in the form and at the time specified below by either (i.) providing or arranging for the provision of Settlement Quality Meter Data to APX, or (ii.) entering into a mutual agreement with APX whereby APX will process Settlement Quality Meter Data for the Registered Load, subject to any terms and conditions that APX may specify. If the Participant chooses to provide or arrange for the provision of Settlement Quality Meter Data to APX pursuant to subpart (i.) above, APX shall be entitled to conduct an annual audit of the data, materials, books or other records that may be involved in the processing of Settlement Quality Meter Data, provided (x.) the audit shall be conducted at the Participant's expense at a mutually convenient time and place, preferably where data is processed or records are stored; (y) APX shall provide reasonable advance notice of the audit, audit time, and place; and (z) APX shall conduct the audit during normal business hours unless the Participant and APX agree otherwise.
- 5.3. By approving a Participant's use of any MDMA and MASP, or by maintaining a list of approved MDMA and MASPs, APX makes no representation or warranty as to the capabilities (technical, financial or otherwise) of any MDMA or MASP. Each Participant is solely responsible for ensuring that its MDMA and MASP comply with the requirements of Governmental Authorities and has the capability to fulfill its obligations under the APX Master Terms and this Tab 2. APX is not responsible for the failure of any MDMA and MASP to perform to a particular Participant's satisfaction.
- 5.4. Each Participant shall be solely responsible for the timely submission of Settlement Quality Meter Data. Additionally, each Participant is solely responsible for any error in the Settlement Quality Meter Data that is submitted to APX and/or the ISO by the Participant or the Participant's MDMA and MASP. Lastly, each Participant who fails to submit, or submits inaccurate or incomplete Settlement Quality Meter Data, such that APX is assessed ISO Charges, agrees to reimburse APX for all charges actually assessed plus administrative costs incurred by APX in rectifying deficient data.
- 5.5. The following specific rules describe the performance standards for providing Settlement Quality Meter Data to APX:
  - 5.5.1. Registered Facilities that are directly connected to the ISO Controlled Grid must comply with all applicable provisions of the ISO Tariff, protocols, and published operational technical requirements.
  - 5.5.2. Registered Facilities that are not directly connected to the ISO Controlled Grid must provide Settlement Quality Meter Data to APX in a manner that conforms with all applicable provisions of the ISO Tariff, protocols, and operational technical requirements.
  - 5.5.3. For Registered Facilities that are not directly connected to the ISO Controlled Grid, Settlement Quality Meter Data must be provided to APX no later than five (5) days before a particular day's energy consumption/production data is due to the ISO.
  - 5.5.4. Registered Generators that are not directly connected to the ISO Controlled Grid with a nameplate capability greater than 50 KW must provide data from an interval meter that measures net electrical output at the interface to the distribution system or the ISO Controlled Grid as appropriate.
  - 5.5.5. For Registered Loads, consumption must be reported at the level at which it was Scheduled (e.g. if the Load was Scheduled at a Take-Out Point, the corresponding End-Use Meter reads must be reported at that Take-Out Point).
  - 5.5.6. For Participants with both Registered Loads and Registered Generators, meter data for Load and Generation must be reported separately, and cannot be netted against each other.

6. APX CALIFORNIA SCHEDULING SERVICE (PARTICIPANT SC ID) - OPERATIONAL REQUIREMENTS
- 6.1. In addition to the eligibility requirements of Section 3 of the APX Master Terms, to be eligible to use APX California Scheduling Service (Participant SC ID), a Participant must:
- a. Designate APX as the Scheduling Coordinator Agent for specified Generators, Loads, Exports, Imports and Transfer Points in its APX Registration Statement;
  - b. Provide all information that APX reasonably needs to comply with the ISO Tariff; and
  - c. For Registered Loads, provide monthly energy consumption data, peak energy demand data from interval meters, and the rate schedule for that load under which it has taken service for the preceding 12 months.
- 6.2. If any material modification is made to a Participant's Registered Facility, the Participant shall inform APX by a written change to its then current APX Registration Statement.
- 6.3. By virtue of its use of APX California Scheduling Service (Participant SC ID), each Participant grants to APX all agency authority necessary to comply with the ISO Tariff as a Scheduling Coordinator.
- 6.4. Each Participant has a contractual obligation to take or Deliver the amount of energy specified in any Schedule submitted to the ISO by APX in the name of the registered Participant. In the event of a Deviation, including a Deviation resulting from a Participant's failure to Schedule a Delivery with APX or its counter-party, the Participant must pay a charge or receive a credit, as the case may be, to reflect associated True-Up Amounts and ISO Charges.
- 6.5. With respect to any Schedule that APX submits to the ISO in the name of a Participant, as well as related Deliveries required under Schedules submitted, the Participant shall be solely responsible for all charges imposed on APX by the ISO and all APX fees associated with such Schedules or related Deliveries.
- 6.6. In providing APX California Scheduling Service to a given Participant, APX will endeavor to:
- a. Submit required Schedules to the ISO using the Participant SC ID.



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CALIFORNIA SCHEDULING SERVICES

- b. Transmit Ancillary Service bids for Participant's Registered Facility to the ISO, and pass ISO acceptance, instructions, payments, fees, and charges, if any, back to the Participant.
  - c. Transmit error messages generated by the ISO's Schedule validation checks to the Participant, as received by APX;
  - d. Transmit applicable messages sent by the ISO to the Participant, as received by APX;
  - e. If applicable, relay Settlement Quality Meter Data provided by the Participant (or its MDMA) to the ISO or equivalent;
  - f. If applicable, relay Settlement Quality Meter Data provided by the ISO to the Participant (or its MDMA); and
  - g. Calculate any Pass-Through Charges owing, including imputed Control Area Operator charges.
  - h. Calculate from the ISO any Pass-Through Payments owed to the Participant.
- 6.7. All communications (including bids) that APX is to transmit to the ISO on behalf of Participants must be received via the APX Market Window or other means approved by APX in its reasonable discretion.
- 6.8. When APX is acting as SC Agent in a Transfer Schedule, APX will notify the counterpart SC of the Net Physical Position of the Registered Transfer Point and the Zone associated with the Transfer Schedule when it appears that there is a mismatch. APX will submit settled Transfer Schedules to the ISO at each opportunity provided for submitting Schedules, and is authorized to submit the Transfer Schedule to the ISO whether it has received counterpart SC confirmation or not. In the event of a discrepancy between the Net Physical Position and/or Zone reported by APX and the counterpart SC, APX will apply commercially reasonable efforts to resolve such discrepancy. If a discrepancy cannot be resolved in time for submittal to the ISO, APX will submit the Transfer Schedule it has and shall not be responsible for any later discovered inaccuracy in the counterpart SC's information.
- 6.9. When APX is acting as SC Agent for a Participant, Tab 3 (APX Managed Credit Services) does not apply.
- 6.10. When APX is acting as SC Agent for a Participant, Section 4 of Tab 4 (Settlement and Payment) does not apply.

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AUTOMATED POWER EXCHANGE  
MASTER TERMS AND CONDITIONS: TAB 3  
APX MANAGED CREDIT SERVICES

1. SCOPE.

- 1.1. This Tab Number 3 to the APX Master Terms and Conditions of Service sets forth the requirements, procedures, and protocols for the effective use of APX Managed Credit Services in all regions where APX trading services and Scheduling Services are offered. Together with other applicable Tabs, the APX Master Service and Participation Agreement, and the APX Master Terms and Conditions of Service, all of which are expressly incorporated by reference, this Tab constitutes the entire agreement necessary for Participants to engage in APX Managed Credit Services. Participant Approved Counter-Party Trading is procedurally different, is described in Tab 1, and is not applicable to this Tab 3.
- 1.2. References to a Section shall mean a Section of this Tab 3, unless otherwise agreed. In the event of conflict between this Tab 3 and the APX Master Terms, this Tab 3 shall control and take precedence. APX Managed Credit Services is an APX Market within the meaning of that defined term in all regions where offered.

2. DEFINITIONS.

- 2.1. "APX Clearing Account" means the account maintained with the Depository in which all monies owing from Participant's are deposited and disbursed.
- 2.2. "Business Day" means a day on which Federal Monetary Reserve member banks are open for business in California and New York.
- 2.3. "Market Closing Time" means the time the APX Market Engine ceases to accept Buy Orders or Sell Orders for a particular APX Market for a particular interval.
- 2.4. "Monetary Reserve Account" means the APX accessible accounts maintained with the Depository containing Participant cash to secure all or a portion of that Participant's APX Service obligations.
- 2.5. "Monetary Reserve Requirement" means the minimum amount of funds (in US dollars) or reserves (in letter of credit form) that a Participant must maintain in its Monetary Reserve Facility at any given time to cover the Participant's Net Exposure.
- 2.6. "Net Exposure" means APX' good faith estimate of a Participant's maximum net monetary exposure (in US dollars) relating to the APX Services at any given time, as determined by APX in its reasonable discretion.
- 2.7. "Net Financial Position" means the total amount (in US dollars) due from or payable to a Participant at any given time, based on the aggregate of such Participant's Contracted Orders and other use of the APX Services.

3. APX MANAGED CREDIT TERMS.

- 3.1. Each APX Managed Credit Participant shall establish and maintain a Monetary Reserve Facility that meets the requirements set forth in this Tab 3 and is otherwise acceptable to APX in its reasonable discretion. Such Monetary Reserve Facility may take one of the following forms:
- a. an irrevocable and unconditional letter of credit that has been approved by APX and issued by a bank or other financial institution acceptable to APX in its reasonable discretion, as more fully described below; or
  - b. a cash deposit in an interest-bearing Monetary Reserve Account, with interest accruing to the Participant.
- 3.2. Each Participant shall establish and maintain its Monetary Reserve Facility in an amount that is sufficient to cover its Net Exposure, as determined by APX from time to time. APX reserves the right to set and modify the criteria used to determine Net Exposure from time to time in its sole reasonable discretion, and will notify Participants of changes in such criteria to the extent that such changes have a material effect upon Participant's Monetary Reserve Requirement.
- 3.3. Letters of credit are shown as a balance under the "Credit Limit" icon of the Participant's Market Window. APX will provide Participants the templated forms for posting letters of credit. APX will accept letters of credit from financial institutions that enjoy a minimum short-term rating of A1+ (Standard & Poor's), P1 (Moody's), or F1+ (Fitch). If an institution's letter of credit rating falls below the required level after a Participant has Registered, the Participant will be notified and has thirty (30) days from the rating downgrade date to replace the letter of credit.
- 3.4. Participants may mix Monetary Reserve Facility types to meet their estimated credit limit requirements. In the event of a draw on a Participant's Monetary Reserve Facility where the MRF is comprised of mixed species of funds, APX will exercise its reasonable discretion in drawing on one type before another in curing the deficiency.

- 3.5. APX shall only initiate a draw upon Participant's Monetary Reserve Facility if it appears there are insufficient funds in the APX Clearing Account on the monthly Payment Due Date to cover that Participant's then presenting Net Exposure. In order to avoid or mitigate this potential situation, APX will monitor a Participant's Net Exposure on a daily basis, and may periodically call for increases in the Participant's posted credit levels in any given month. An inability to post additional credit, or a failure to promptly do so in response to APX' request, will cause the Participant's further trading to be suspended until they unwind their financial position or post additional credit. Under some circumstances, APX may withdraw as the Participant's Scheduling Coordinator and/or Qualified Scheduling Entity, as when a Registered Load has been apprised of the need to increase their available credit, and has failed to do so. Credit is encumbered automatically against entered bids, even before such bids have Contracted on the APX Market Window screen. Bids not Contracted lapse at Market Closing Time, and the unused credit returns to the Participant's then available credit limit.
- 3.6. Prior to initiating any draw upon a Participant's Monetary Reserve Facility, APX will employ reasonable efforts to notify the Participant of the insufficiency in time for such Participant to rectify the shortage; provided that APX shall not be liable for ( i ) any failure to actually notify a Participant prior to initiating a draw under this Section, or ( ii ) initiating a draw under this Section at any time before, after, or contemporaneously with giving such notice. Each time APX initiates a draw on a Participant's Monetary Reserve Facility, the Participant will incur the Default Fee listed in Tab 5 of these APX Master Terms.
- 3.7. For Participants that are subject to ISO pass-through charges, it may be necessary to periodically increase a trading Participant's APX Clearing Account cash deposits solely to cover the increased cash exposure in that

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MASTER TERMS AND CONDITIONS: TAB 3  
APX MANAGED CREDIT SERVICES

single trading venue. APX will initiate written notification to the Participant if such an increase in Clearing Account cash deposits is required. For those affected Participants whose trading is ultimately secured by a Monetary Reserve Facility letter of credit, any increase in their APX Clearing Account deposits made necessary by the imposition of ISO pass-through charges must be in the form of cash, rather than in an increase in the face amount of the letter of credit.

- 3.8. Monetary Reserve Facility cash reserves shall bear interest for the Participant at the rate negotiated from time to time between APX and the Depository. For purposes of the amount to be maintained by the Participant as a Monetary Reserve Facility, the Participant shall receive a credit on the tenth Business Day of each month equal to the amount of interest earned during the preceding calendar month. At a Participant's request, annually in January, APX will distribute to such Participants an amount equal to the interest earned on funds held in the Monetary Reserve Account, so long as such distribution does not cause the Participant to have insufficient credit reserves.

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AUTOMATED POWER EXCHANGE  
MASTER TERMS AND CONDITIONS: TAB 4  
SETTLEMENT AND PAYMENT SERVICES

1. SCOPE.

- 1.1. This Tab Number 4 to the APX Master Terms and Conditions of Service sets forth the requirements, procedures, and protocols for the effective use of APX Settlement and Payment Services. Together with other applicable Tabs, the Master Service and Participation Agreement, and the APX Master Terms and Conditions of Service, all of which are expressly incorporated by reference, this Tab constitutes the entire agreement necessary to receive APX Settlement and Payment Services.
- 1.2. References to a Section shall mean a Section of this Tab 4, unless otherwise agreed. In the event of conflict between this Tab 4 and the APX Master Terms, this Tab 4 shall control and take precedence. APX Settlement and Payment Services is an APX Market within the meaning of that defined term.

2. DEFINITIONS.

- 2.1. "APX Settlement Statement" means the password protected, electronically posted statement of a Participant's actual and estimated amounts owed by or to that Participant, in connection with the Participant's use of APX Services for the reporting period, including True-Up Amounts.
- 2.2. "Control Area Operator Charges" means the fees that are imposed by a Control Area Operator in connection with a Participant's use of the APX Services.
- 2.3. "Default Fee" means the charge specified in Tab 5 of these APX Master Terms that is assessed by APX in the event that APX is required to initiate a draw on a Participant's Monetary Reserve Facility.
- 2.4. "Monthly Invoice" means the password protected, electronic statement of an APX Market Participant's transactions in the preceding calendar month, including payments made or received, APX Fees, Pass-Through Charges and Payments, and Control Area Operator Charges.
- 2.5. "Net Financial Position" means the total amount (in US dollars) due from or payable to a Participant at any given time, based on the aggregate of such Participant's Contracted Orders and other use of the APX Services.
- 2.6. "Pass-Through Charges" means all charges and taxes levied by a Control Area Operator or any Governmental Authority (other than APX Fees) in connection with ( i ) the purchase, sale, Delivery, and use of APX Products; or ( ii ) the use of any APX Service.
- 2.7. "Pass-Through Payments" means all payments from a Control Area Operator, or any other entity, to APX for a Participant in connection with such Participant's use of the APX Services that APX accepts for further pass on to Participants.
- 2.8. "Payment Due Date" means 10:00 a.m. Pacific Standard or Daylight Savings Time, on the fifteenth day of each month, or if the fifteenth is not a Business day, on the last Business Day preceding the fifteenth day.
- 2.9. "Payment Receipt Date" means 12:00 noon, Pacific Standard or Daylight Savings Time, on the second Business Day following the Payment Due Date.
- 2.10. "True-Up Amount" means the amount credited or debited to a Participant to reflect new information in respect of a Participant's actual activities and liabilities.

3. SETTLEMENT TERMS.

- 3.1. APX will regularly produce a Settlement Statement for each Participant. The Settlement Statement will reflect actual and estimated amounts owed by or to a Participant, including all charges for electricity, Pass-Through Charges, Pass-Through Payments, and APX Fees in connection with the Participant's use of the APX Services for the reportable Delivery Day. True-Up Amounts will also be posted in the viewable and downloadable Settlement Statement based upon the data available to APX at the time. If Pass-Through Charges and Pass-Through Payments for that reporting day correlate to more than one APX Participant, APX will allocate such Charges and Payments to affected Participants on a pro rata basis according to the amount of electricity Delivered by or to the Participants in connection with their use of any APX Service.
- 3.2. Promptly after the end of each calendar month, but no later than the seventh day of the next month, APX will post the Participant's Monthly Invoice reflecting that Participant's Net Financial Position for the prior month. The Monthly Invoice will include all defined elements stated above, and any new or adjusted Control Area Operator Charges or credits received up to the posting date, even if such Charges or credits relate to activity preceding the billing month that is the subject of the Monthly Invoice.
- 3.3. All Settlement Statements and Monthly Invoices will be delivered via

such secure electronic means as may be approved by APX from time to time. Participants desiring delivery of Settlement Statements or Monthly Invoices by means other than the password protected APX Internet Site must make alternate arrangements with APX. Notwithstanding the foregoing, upon a Participant's written request, Monthly Invoices also will be sent by APX to the Participant via U.S. mail.

#### 4. PAYMENT TERMS.

- 4.1. Each Participant that owes money to APX or any other Participant at the end of each month shall deposit such amount, in immediately available funds, into the APX Clearing Account on or before the Payment Due Date. Each Participant is responsible for ensuring that sufficient funds to cover payment for all outstanding liabilities are deposited into the APX Clearing Account on or before the Payment Due Date.
- 4.2. A Participant's liability for amounts owing to APX or any other entity pursuant to these APX Master Terms at the end of the month shall be discharged to the extent available funds have been deposited by the Participant by the applicable Payment Due Date. If a Participant uses APX Services in more than one APX Market, APX will apply the funds in the Clearing Account to the Participant's outstanding obligations in all APX Markets according to the order in which such obligations were incurred. If sufficient funds have not been deposited in the APX Clearing Account by the Payment Due Date, APX will direct the Depository to allocate the available funds that have been deposited by the Participant in APX' reasonable discretion and will initiate a draw upon the Participant's Monetary Reserve Facility in an amount that is sufficient to discharge remaining obligations. Prior to initiating any such draw, however, APX will employ reasonable efforts to notify the Participant of the insufficiency in time for such

AUTOMATED POWER EXCHANGE  
MASTER TERMS AND CONDITIONS: TAB 4  
SETTLEMENT AND PAYMENT SERVICES

Participant to rectify the shortage; provided that APX shall not be liable for (i) any failure to actually notify a Participant prior to initiating a draw under this Section 4.2, or (ii) initiating a draw under this Section 4.2 at any time before, after or contemporaneously with giving such notice. Each time APX initiates a draw on a Participant's Monetary Reserve Facility, the Participant will incur the Default Fee listed in Tab 5 to these APX Master Terms.

- 4.3. APX shall effectuate payment to each Participant that is owed money at the end of the month by withdrawing the amount due from the APX Clearing Account and depositing such amount into an account designated by the Participant. Any such account must be capable of receiving funds via Fed-Wire. Such payment will occur on the Payment Receipt Date or such other date as may be agreed upon in writing between APX and the Participant.
- 4.4. APX will remit to each Participant all Pass-Through Payments that are owing to such Participant and that APX has received as of the Payment Due Date. Such remittance will occur on the Payment Receipt Date. In performing this function, APX will forward the Pass-Through Payments actually received, and shall bear no responsibility for any shortage, delay, or reduction in Pass-Through Payment that the originator of the payment may have caused. Participants shall be solely responsible for raising, pursuing and resolving any dispute regarding Pass-Through Payments with the applicable party and/or originator, and shall reimburse APX for any costs incurred by APX in connection therewith. In the event of a dispute between Participant and the originator of Pass-Through Payments, APX' responsibility shall be confined to providing information concerning a Participant's Contracted Orders and Scheduled Deliveries in response to the Participant's reasonable request; provided that the provision of such requested information does not cause or induce a violation or breach of confidentiality arising from obligations under these APX Master Terms.
- 4.5. In the event a Participant's Net Financial Position has changed between the end of the prior month and the Payment Receipt Date from that of net seller to net buyer as a result of activity in the first 12 days of the new month, APX reserves the right to account for that fact in holding back some of the funds that the Participant would be otherwise entitled to solely as a result of its trading activity in the prior month.
- 4.6. All exchanges of funds by or with the Depository shall be by Fed-Wire or similarly secure electronic funds transfer method proposed by the Participant and approved by APX. All deposits into the APX Clearing Account and payments from the APX Clearing Account shall be in U.S. dollars. Exchange rate conversion charges and fees, if any, will be borne by the Participant.
- 4.7. Notwithstanding the provisions of Section 15 of the APX Master Terms, in the event a Participant disputes any amount in a Settlement Statement or Monthly Invoice, such Participant must notify APX of the Participant's dispute within 30 days after the date of the Statement or Invoice in which the disputed amount first appears. Such notification by a Participant must include a complete statement of the basis underlying the Participant's objection to the amounts set forth in the Settlement Statement or Monthly Invoice. A Participant's failure to notify APX of a Settlement Statement or Monthly Invoice dispute within the relevant 30 day period will constitute acceptance by the Participant of the truth and accuracy of the posted statements and a waiver by the Participant of any right to object to such Settlement Statement or Monthly Invoice. Failure to object to an estimated charge shall not serve to waive or minimize a Participant's right to object to any related True-Up Amount in a subsequent Settlement Statement or Monthly Invoice. Lastly, the Participant is obligated to pay Monthly Invoice published charges, even if disputed, by the Payment Due Date. If the dispute is resolved in the Participant's favor after the Payment Due Date, a credit will be posted to the then current Settlement Statement.
- 4.8. If APX discovers any error in a Settlement Statement or Monthly Invoice, it will correct such error as soon as practicable. Participants shall be responsible for paying any additional amounts owing to APX, and shall receive payment from APX, as a result of a corrected Settlement Statement or Monthly Invoice in the manner described in Section 4.2 or 4.3 as the case may be.
- 4.9. Notwithstanding the provisions of Section 3.2, APX may, but is not obligated to, send supplemental invoices to a Participant at any time reflecting True-Up Amounts related to Pass-Through Charges. Payment of amounts set forth in a supplemental invoice shall be due on the date indicated by APX in such invoice. The provisions of this Section 4 shall apply to such supplemental invoices.
- 4.10. In the event that a Participant has not deposited sufficient funds in the APX Clearing Account by the Payment Due Date, and the Participant's Monetary Reserve Facility is inadequate to cover the shortfall, APX may take any action to recover the unpaid amount that is available to it at law or equity. Interest shall accrue on the unpaid amount until paid in full on a daily basis at a fluctuating rate equal to the highest prime rate published in the Wall Street

Journal plus six (6) percent, or the maximum interest rate permitted by law, whichever is less.

- 4.11. In the event that, as a result of a default by a Participant or otherwise, after reasonable and diligent attempts to replenish the Participant's Clearing Account funds and draw down Participant's Monetary Reserve Facility, APX will act to reduce payments to Participants that are owed money in connection with their use of APX Services in the same APX Market as the defaulting Participant. APX will reduce payments to Participants in that APX Market on an individual basis separate from all other APX Markets, such that payments owed to a Participant in one APX Market will not be reduced to offset unpaid amounts that are owing in connection with APX Services in any other APX Market.

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AUTOMATED POWER EXCHANGE  
MASTER TERMS AND CONDITIONS: TAB 5  
APX PRODUCT AND SERVICE FEE SCHEDULE

APX FEES - WSCC REGION

MARKET TRANSACTION FEES

APX FEES	AMOUNT	UNIT OF MEASURE	TIME THAT FEE IS INCURRED	COMMENTS
APX Market Transaction Fee (Hourly Energy)	\$0.10	Per MWh	When an Order is Contracted in the APX Markets	Applies to buy Orders and sell Orders each time an Order is Contracted in whole or in part.
APX Market Transaction Fee (Daily/BOM Energy)	\$0.03	Per MWh	When an Order is Contracted in the APX Markets	Applies to buy Orders and sell Orders each time an Order is Contracted in whole or in part.
APX Market Transaction Fee (Monthly Energy and A/S CFD)	\$0.01	Per MWh	When an Order is Contracted in the APX Markets	Applies to buy Orders and sell Orders each time an Order is Contracted in whole or in part.
APX Market Transaction Fee (Annual Green Tickets)	\$0.03	Per MWh	When an Order is Contracted in the APX Markets	Applies to buy Orders and sell Orders each time an Order is Contracted in whole or in part.

SCHEDULING FEES ( NP15, SP15, ZP26)

APX FEES	AMOUNT < 25,000 MWh PER MONTH	AMOUNT > 25,000 MWh PER MONTH	UNIT OF MEASURE	TIME THAT FEE IS INCURRED	COMMENTS
APX Market Scheduling Fee (Day-Ahead)	\$0.1250	\$0.0625	Per MWh	When a Day-Ahead Schedule is accepted by the CAISO	Applies to net position of Registered Facilities except Registered Transfer Points.
APX Market Scheduling Fee (Hour-Ahead)	\$0.1250	\$0.0625	Per MWh	When an Hour-Ahead Schedule is accepted by the CAISO	Applies in the same manner as the Day-Ahead APX Market Scheduling Fee when there is a change in net position between the Day-Ahead and Hour-Ahead Schedules/
APX Real-Time Scheduling Fee (Real-Time Deviations)	\$0.2500	\$0.1250	Per MWh	When APX applies CAISO Imbalance Energy fees-rata	Applies when metered consumption or generation is greater than the most recently scheduled position.
APX Bilateral Scheduling Fee (Day-Ahead)	\$0.1250	\$0.0625	Per MWh	When a Day-Ahead Schedule is accepted by the CAISO	Applies to the source and sink MWhs of a bilateral contract.
APX is the SC for both parties of the bilateral transaction					
APX Bilateral Scheduling Fee (Hour-Ahead)	\$0.1250	\$0.0625	Per MWh	When an Hour-Ahead Schedule is accepted by the CAISO	Applies in the same manner as the Day-Ahead APX Bilateral Scheduling Fee when there is a change in net position between the Day-Ahead and Hour-Ahead Schedules.
APX is the SC for both parties of the bilateral transaction					
APX Bilateral Scheduling Fee (Day-Ahead)	\$0.2500	\$0.1250	Per MWh	When an Hour-Ahead Schedule is accepted by the CAISO	Applies to the scheduled MWhs of a bilateral contract, including instances where the source or sink uses another Scheduling Coordinator.
APX is the SC for one party of the bilateral transaction					
APX Bilateral Scheduling Fee (Hour-Ahead)	\$0.2500	\$0.1250	Per MWh	When an Hour-Ahead Schedule is accepted by the CAISO	Applies in the same manner as the Day-Ahead APX Bilateral Scheduling Fee when there is a change in net position between the Day-Ahead and Hour-Ahead Schedules.
APX is the SC for one party of the bilateral transaction					
APX Bilateral Scheduling Fee (Green Tickets)	\$0.03	\$0.03	Per MWh	When a bilateral is confirmed between the parties	Applies to Green Ticket buyers and Green Ticket sellers when APX handles the financial settlement of the Green Ticket transaction between the parties.
APX Scheduling Fee (Ancillary Services Capacity)	\$0.1250	\$0.0625	Per MWh	When the CAISO purchases Ancillary Services Capacity	"Ancillary Services Capacity" means the capacity provided by a Participant to the CAISO for supplying Ancillary Services.
APX Scheduling Fee (Ancillary Services Energy)	\$0.1250	\$0.0625	Per MWh	When a Schedule for Ancillary Services is accepted by CAISO	Applies to Ancillary Service energy that is dispatched by the CAISO.

APX Scheduling Fee (Supplemental Energy Dispatched)	\$0.1250	\$0.1250	Per MWh	When a Schedule for Supplemental Energy is dispatched by CAISO	Applies to Supplemental Energy that is dispatched by the CAISO, whether accepted or declined by the Participant.
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FIXED FEES FOR MARKET TRANSACTIONS AND SCHEDULING

AUTOMATED POWER EXCHANGE  
MASTER TERMS AND CONDITIONS: TAB 5  
APX PRODUCT AND SERVICE FEE SCHEDULE

APX FEES	AMOUNT	UNIT OF MEASURE	TIME THAT FEE IS INCURRED	COMMENTS
Minimum Monthly Market Fee	\$500	Per Participant per month	Last day of each month	Fee applies to Participants trading in the APX Markets that do not utilize the APX Scheduling Coordinator Services. Applies to the extent that a Participant's total APX Market Transaction Fees for a month are less than \$500. Amount to be paid is the difference between total Transaction Fees and the \$500 minimum. Fee commences when a Participant connects to the APX Market Engine or uses the APX Phone Brokerage Service. Fee terminates upon receipt of a Contract Termination letter. Participants will pay this fee only once each month to cover participation in all of the APX Markets.
Minimum Monthly Scheduling/Market Fee	\$2500	Per Participant per month	Last day of each month	Fee applies to Participants utilizing the APX Scheduling Coordinator Services, including sales to CAISO imbalance market. Applies to the extent that a Participant's total Scheduling Fees for a month are less than \$2500. Fee commences when a Participant submits its first schedule or when the Participant's first Generation or Load Meter becomes effective. Fee terminates three months after receipt of Contract Termination letter or last schedule submitted.
Participant Set-up Fee	\$1,000	One time fee	Last day of month once a Participant is billed Minimum Monthly Fee for first time.	Participants will pay this fee only once (unless the Participant is suspended) to cover participation in all of the APX Markets.
Participant Training Fee (1st) session)	No Charge	N/A	N/A	Participant must have signed the MSPA.
Participant Training Fee (additional sessions)	\$1000	Per session	Last day of the month in which training occurred	
Monetary Reserve Account Maintenance Fee	\$25	Per Participant per month	Last day of each month	Only applies if a Participant establishes a Monetary Reserve Account. Participants will pay this fee once each month to cover maintenance of a given Monetary Reserve Account.
Default Fee	\$2,500	Per default	When APX initiates a draw on a Participant's Monetary Reserve Facility	
Funds Transfer Fee	\$5	Per transfer	When funds are transferred via Fed-Wire, Automated Clearing House (ACH), or Electronic Funds Transfer (EFT)	Applies to receipt and payment of funds.
Generation Meter Data Disaggregation Fee	\$5000	Per Participant per month	Last day of each month	Only applies when the Participant's meter data for one or more Generation Meters is not sent daily to the CAISO.

APX FEES - ERCOT and NORTHEAST REGION

APX FEES	AMOUNT	UNIT OF MEASURE	TIME THAT FEE IS INCURRED	COMMENTS
MARKET TRANSACTION FEES				
APX Market Transaction Fee	\$0.03	Per MWh	When an Order is Contracted in the APX Markets	Applies to Buy Orders and Sell Orders each time an Order is Contracted in whole or in part.
FIXED FEES				
Minimum Monthly Market Fee	\$500	Per Participant per month	Last day of each month	Applies to the extent that a Participant's total APX Market Transaction Fees for a month are less than \$500. Amount to be paid is the difference between total Transaction Fees and the \$500 minimum. Fee commences when a Participant connects to the APX Market Engine or uses the APX Phone Brokerage Service. Fee terminates upon receipt of a Contract Termination letter. Participants will pay this fee only once each month to cover participation in all of the APX Markets.

Participant Set-up Fee	\$1,000	One time fee	Last day of month once a Participant is billed Minimum Monthly Fee for first time.	Participants will pay this fee only once (unless the Participant is suspended) to cover participation in all of the APX Markets.
Participant Training Fee (1(st) session)	No Charge	N/A	N/A	Participant must have signed the MSP.

AUTOMATED POWER EXCHANGE  
MASTER TERMS AND CONDITIONS: TAB 5  
APX PRODUCT AND SERVICE FEE SCHEDULE

Participant Training Fee (additional sessions)	\$1000	Per session	Last day of the month in which training occurred	
Fed-Wire Funds Transfer Fee	\$5	Per transfer	When funds are transferred via Fed-Wire	Applies to receipt and payment of funds.

For ERCOT Scheduling Fees, refer to Tab 2A.

AUTOMATED POWER EXCHANGE  
MASTER TERMS AND CONDITIONS: TAB 6  
TELEPHONE BROKERAGE SERVICES

1. SCOPE

- 1.1. This Tab Number 6 to the APX Master Terms and Conditions of Services sets forth the requirements, procedures, and protocols for the effective use of Telephone Brokerage Services. Together with other applicable Tabs, the Master Service and Participation Agreement, and the APX Master Terms and Conditions of Service, all of which are expressly incorporated by reference, this Tab constitutes the entire agreement necessary to utilize the Telephone Brokerage Services in the APX Markets.
- 1.2. References to a Section shall mean a Section of this Tab 6, unless otherwise agreed. In the event of a conflict between this Tab 6 and the APX Master Terms, this Tab 6 shall control and take precedence. The Telephone Brokerage Services is an APX Market within the meaning of that defined term.

2. DEFINITIONS

- 2.1. The following defined terms supplement the Master Terms and are applicable to Telephone Brokerage Services in the APX Markets in the United States and Canada
  - 2.1.1. "APX Telephone Brokerage Desk" means the manned APX desk that acts as a confidential point of contact for all Participants to conduct trades through the online APX Markets.
  - 2.1.2. "APX Operations Desk" means the manned APX desk that assists Participants with scheduling activities and interact with the California ISO.
  - 2.1.3. "Telephone Brokerage Services" means the telephone services provided by APX in which it acts as an intermediary, transacting for its Participants in the APX Markets with impartiality and discretion.

3. TELEPHONE BROKERAGE SERVICES.

- 3.1. Telephone Brokerage Services include:
  - 3.1.1. Telephone dialogue between APX and Participants to provide the information necessary for Participants to learn the essential facts relating to open Orders in the APX Markets and to generate interest in posting Orders and/or counteracting to open Orders.
  - 3.1.2. APX submittal of Orders on behalf of Participants via a recorded telephone line or written notice (facsimile and electronic mail are acceptable).
  - 3.1.3. APX withdrawal of Orders on behalf of Participants via a recorded telephone line or written notice (facsimile and electronic mail are acceptable).
- 3.2. Telephone Brokerage Services do not include scheduling activities, which are handled by the APX Operations Desk.
- 3.3. Security Authorization

To submit/withdraw Orders using the APX Telephone Brokerage Desk, users are required to provide their Login ID and Password. A Participant shall not permit others to use Participant's account and shall notify APX of any known or suspected unauthorized use of Participant's account. Participant is responsible for maintaining the confidentiality of the password and shall be fully liable for the use and any unauthorized use its Login IDs.
- 3.4. Confidentiality

All information passed on by a Participant to APX is treated with the utmost confidentiality per Section 4.2.4 of the Master Terms.

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report, dated February 14, 2002 included in this Annual Report on Form 10-K into the following previously filed American States Water Company and Southern California Water Company registration statements:

Registration Form	Registration No.	Effective Date
S - 8 POS	333-47647	August 13, 1998
S - 3	333-68299	December 22, 1998
S - 3	333-88979	October 26, 1999
S - 8	333-39482	June 16, 2000
S - 3	333-73378	November 15, 2001

It should be noted that we have not audited any financial statements of the Company subsequent to December 31, 2001 or performed any audit procedures subsequent to the date of our report.

Los Angeles, California  
March 4, 2002