

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1999

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

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

American States Water Company Yes  No   
Southern California Water Company Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of August 11, 1999, the number of Common Shares outstanding, No Par Value with Stated Value of \$2.50, of American States Water Company was 8,957,671, all of which are listed on the New York Stock Exchange.

As of August 11, 1999, all of the 100 outstanding Common Shares of Southern California Water Company are owned by American States Water Company.

AMERICAN STATES WATER COMPANY  
AND  
SOUTHERN CALIFORNIA WATER COMPANY  
FORM 10-Q  
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## PART I

## ITEM 1. FINANCIAL STATEMENTS

## General

The basic financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission.

Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such rules and regulations, although Registrant believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments necessary for a fair statement of results for the interim period have been made.

It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto in the latest Annual Report on Form 10-K of American States Water Company.

## Filing Format

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
ASSETS

	JUNE 30, 1999	DECEMBER 31, 1998
	-----	-----
	(Unaudited)	
	(in thousands)	
UTILITY PLANT, at cost		
Water .....	\$ 496,803	\$ 482,989
Electric .....	35,171	35,171
	-----	-----
	531,974	518,160
Less - Accumulated depreciation .....	(145,325)	(138,423)
	-----	-----
	386,649	379,737
Construction work in progress .....	45,219	35,016
	-----	-----
	431,868	414,753
	-----	-----
OTHER PROPERTY AND INVESTMENTS .....	785	1,077
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents .....	1,668	620
Accounts receivable -		
Customers, less reserves of \$528		
in 1999 and \$403 in 1998 .....	9,269	7,626
Other .....	6,063	5,301
Unbilled revenue .....	11,122	9,303
Materials and supplies, at average cost ....	1,163	994
Supply cost balancing accounts .....	4,422	4,300
Prepayments and other .....	5,542	5,988
Accumulated deferred income taxes - net ....	5,874	5,156
	-----	-----
	45,123	39,288
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets .....	20,831	21,506
Other deferred charges .....	9,008	8,047
	-----	-----
	29,839	29,553
	-----	-----
	\$ 507,615	\$ 484,671
	=====	=====

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
CAPITALIZATION AND LIABILITIES

	JUNE 30, 1999	DECEMBER 31, 1998
	-----	-----
	(Unaudited)	(Unaudited)
	(in thousands)	(in thousands)
<b>CAPITALIZATION</b>		
Common shareholders' equity .....	\$155,911	\$154,299
Preferred shares .....	1,600	1,600
Preferred shares subject to mandatory redemption requirements .....	400	400
Long-term debt .....	160,529	120,809
	-----	-----
	318,440	277,108
	-----	-----
<b>CURRENT LIABILITIES</b>		
Notes payable to banks .....	6,000	38,000
Long-term debt and preferred shares due within one year .....	510	260
Accounts payable .....	14,252	10,218
Taxes payable .....	7,443	5,900
Accrued interest .....	1,575	1,405
Other accrued liabilities .....	10,947	7,985
	-----	-----
	40,727	63,768
	-----	-----
<b>OTHER CREDITS</b>		
Advances for construction .....	56,484	54,743
Contributions in aid of construction .....	38,630	36,530
Accumulated deferred income taxes - net .....	47,783	46,902
Unamortized investment tax credits .....	3,110	3,155
Regulatory tax-related liability .....	1,884	1,906
Other .....	557	559
	-----	-----
	148,448	143,795
	-----	-----
	\$507,615	\$484,671
	=====	=====

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE MONTHS  
ENDED JUNE 30, 1999 AND 1998  
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	1999	1998
	(in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 39,298	\$ 32,148
Electric .....	2,818	2,853
	-----	-----
	42,116	35,001
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	7,370	8,157
Power purchased for pumping .....	1,571	1,318
Power purchased for resale .....	2,330	1,057
Groundwater production assessment .....	1,978	2,128
Supply cost balancing accounts .....	353	(921)
Other operating expenses .....	3,849	3,765
Administrative and general expenses .....	7,368	5,383
Depreciation .....	3,380	2,975
Maintenance .....	1,672	1,826
Taxes on income .....	3,423	2,275
Other taxes .....	1,571	1,452
	-----	-----
	34,865	29,415
	-----	-----
Operating income .....	7,251	5,586
OTHER INCOME/(LOSS) .....	160	(12)
	-----	-----
Income before interest charges .....	7,411	5,574
INTEREST CHARGES .....	3,005	2,807
	-----	-----
NET INCOME .....	4,406	2,767
DIVIDENDS ON PREFERRED SHARES .....	(22)	(23)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 4,384	\$ 2,744
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	8,958	8,958
	=====	=====
Basic Earnings Per Common Share .....	\$ 0.49	\$ 0.31
	=====	=====
Dividends Declared Per Common Share .....	\$ 0.320	\$ 0.315
	=====	=====

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE SIX MONTHS  
ENDED JUNE 30, 1999 AND 1998  
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	1999	1998
	(in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 71,557	\$ 58,314
Electric .....	6,691	6,642
	-----	-----
	78,248	64,956
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	14,318	13,425
Power purchased for pumping .....	3,013	2,624
Power purchased for resale .....	3,521	2,444
Groundwater production assessment .....	3,688	3,608
Supply cost balancing accounts .....	(121)	(1,237)
Other operating expenses .....	7,387	7,026
Administrative and general expenses .....	13,752	10,746
Depreciation .....	6,890	5,949
Maintenance .....	3,810	3,662
Taxes on income .....	5,690	3,744
Other taxes .....	3,195	2,997
	-----	-----
	65,143	54,988
	-----	-----
Operating income .....	13,105	9,968
OTHER INCOME .....	259	131
	-----	-----
Income before interest charges .....	13,364	10,099
INTEREST CHARGES .....	5,981	5,489
	-----	-----
NET INCOME .....	7,383	4,610
DIVIDENDS ON PREFERRED SHARES .....	(44)	(46)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 7,339	\$ 4,564
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	8,958	8,958
	=====	=====
Basic Earnings Per Common Share .....	\$ 0.82	\$ 0.51
	=====	=====
Dividends Declared Per Common Share .....	\$ 0.640	\$ 0.630
	=====	=====

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE TWELVE MONTHS  
ENDED JUNE 30, 1999 AND 1998  
(UNAUDITED)

	TWELVE MONTHS ENDED JUNE 30,	
	1999	1998
	(in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 148,102	\$ 133,819
Electric .....	13,250	13,342
	-----	-----
	161,352	147,161
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	31,726	34,146
Power purchased for pumping .....	7,397	7,171
Power purchased for resale .....	6,091	5,337
Groundwater production assessment .....	7,647	6,874
Supply cost balancing accounts .....	1,144	(1,105)
Other operating expenses .....	14,820	13,298
Administrative and general expenses .....	24,992	22,104
Depreciation .....	13,479	11,423
Maintenance .....	7,459	7,165
Taxes on income .....	12,075	10,271
Other taxes .....	6,322	6,162
	-----	-----
	133,152	122,846
	-----	-----
Operating income .....	28,200	24,315
OTHER INCOME .....	897	629
	-----	-----
Income before interest charges .....	29,097	24,944
INTEREST CHARGES .....	11,700	10,667
	-----	-----
NET INCOME .....	17,397	14,277
DIVIDENDS ON PREFERRED SHARES .....	(89)	(92)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 17,308	\$ 14,185
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	8,958	8,958
	=====	=====
Basic Earnings Per Common Share .....	\$ 1.93	\$ 1.58
	=====	=====
Dividends Declared Per Common Share .....	\$ 1.27	\$ 1.250
	=====	=====

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



AMERICAN STATES WATER COMPANY  
 CONSOLIDATED CASH FLOW STATEMENTS  
 FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998  
 (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	1999	1998
(in thousands)		
<b>CASH FLOWS FROM Operating Activities:</b>		
Net income .....	\$ 7,383	\$ 4,610
Adjustments for non-cash items:		
Depreciation and amortization .....	7,018	6,324
Deferred income taxes and investment tax credits .....	771	3,028
Other - net .....	(2,361)	1,314
Changes in assets and liabilities:		
Accounts receivable .....	(1,643)	859
Prepayments .....	446	2,935
Supply cost balancing accounts .....	(122)	(1,241)
Accounts payable .....	4,034	230
Taxes payable .....	1,543	(3,232)
Unbilled revenue .....	(1,819)	(207)
Other .....	2,198	32
Net Cash Provided .....	17,448	14,652
<b>Investing Activities:</b>		
Construction expenditures .....	(21,130)	(19,137)
Net Cash Used .....	(21,130)	(19,137)
<b>Financing Activities:</b>		
Issuance of securities .....	--	14,999
Receipt of advances and contributions .....	3,263	1,844
Proceeds from long-term debt, net of redemption of preferred shares .....	39,970	486
Refunds on advances .....	(727)	(1,871)
Repayments of notes payable to banks .....	(32,000)	(8,000)
Common and preferred dividends paid .....	(5,776)	(5,688)
Net Cash Provided .....	4,730	1,770
Net Increase (Decrease) in Cash and Cash Equivalents	1,048	(2,715)
Cash and Cash Equivalents, Beginning of period .....	620	4,186
Cash and Cash Equivalents, End of period .....	\$ 1,668	\$ 1,471
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
ASSETS

	JUNE 30, 1999	DECEMBER 31, 1998
	-----	-----
	(Unaudited)	
	(in thousands)	
UTILITY PLANT, at cost		
Water .....	\$ 496,803	\$ 482,989
Electric .....	35,171	35,171
	-----	-----
	531,974	518,160
Less - Accumulated depreciation .....	(145,325)	(138,423)
	-----	-----
	386,649	379,737
Construction work in progress .....	45,219	35,016
	-----	-----
	431,868	414,753
	-----	-----
OTHER PROPERTY AND INVESTMENTS .....	786	763
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents .....	1,233	524
Accounts receivable -		
Customers, less reserves of \$525		
in 1999 and \$403 in 1998 .....	8,848	7,498
Other .....	6,029	5,376
Unbilled revenue .....	11,122	9,303
Materials and supplies, at average cost ....	1,163	994
Supply cost balancing accounts .....	4,422	4,300
Prepayments and other .....	5,542	5,988
Accumulated deferred income taxes - net ....	5,895	5,173
	-----	-----
	44,254	39,156
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets .....	20,831	21,506
Other deferred charges .....	8,890	7,997
	-----	-----
	29,721	29,503
	-----	-----
	\$ 506,629	\$ 484,175
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY  
 CONSOLIDATED BALANCE SHEETS  
 CAPITALIZATION AND LIABILITIES

	JUNE 30, 1999	DECEMBER 31, 1998
	-----	-----
	(Unaudited)	
	(in thousands)	
<b>CAPITALIZATION</b>		
Common shareholders' equity .....	\$157,074	\$155,721
Long-term debt .....	160,529	120,809
	-----	-----
	317,603	276,530
	-----	-----
<b>CURRENT LIABILITIES</b>		
Notes payable to banks .....	6,000	38,000
Long-term debt and preferred shares due within one year .....	510	260
Accounts payable .....	13,770	10,054
Taxes payable .....	7,776	6,147
Accrued interest .....	1,575	1,405
Other accrued liabilities .....	10,947	7,984
	-----	-----
	40,578	63,850
	-----	-----
<b>OTHER CREDITS</b>		
Advances for construction .....	56,484	54,744
Contributions in aid of construction .....	38,630	36,530
Accumulated deferred income taxes - net .....	47,783	46,902
Unamortized investment tax credits .....	1,884	3,155
Regulatory tax-related liability .....	3,110	1,906
Other .....	557	558
	-----	-----
	148,448	143,795
	-----	-----
	\$506,629	\$484,175
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE MONTHS  
ENDED JUNE 30, 1999 AND 1998  
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	----- 1999	----- 1998
	----- (\$ in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 39,210	\$ 32,148
Electric .....	2,818	2,853
	-----	-----
	42,028	35,001
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	7,370	8,157
Power purchased for pumping .....	1,571	1,318
Power purchased for resale .....	2,330	1,057
Groundwater production assessment .....	1,978	2,128
Supply cost balancing accounts .....	353	(921)
Other operating expenses .....	3,836	3,765
Administrative and general expenses .....	7,274	5,383
Depreciation .....	3,380	2,975
Maintenance .....	1,671	1,826
Taxes on income .....	3,428	2,275
Other taxes .....	1,570	1,452
	-----	-----
	34,761	29,415
	-----	-----
Operating income .....	7,267	5,586
OTHER INCOME/(LOSS) .....	137	(12)
	-----	-----
Income before interest charges .....	7,404	5,574
INTEREST CHARGES .....	3,006	2,807
	-----	-----
NET INCOME .....	4,398	2,767
DIVIDENDS ON PREFERRED SHARES .....	--	(23)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 4,398	\$ 2,744
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING .....	100	100
	=====	=====
Basic Earnings Per Common Share .....	\$ 43,980	\$ 27,440
	=====	=====
Dividends Declared Per Common Share .....	\$ 30,500	\$ 28,217
	=====	=====

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

All information has been adjusted to reflect formation of holding company in 1998.

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE SIX MONTHS  
ENDED JUNE 30, 1999 AND 1998  
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	1999	1998
	(\$ in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 71,423	\$ 58,314
Electric .....	6,691	6,642
	78,114	64,956
<b>OPERATING EXPENSES</b>		
Water purchased .....	14,318	13,425
Power purchased for pumping .....	3,013	2,624
Power purchased for resale .....	3,521	2,444
Groundwater production assessment .....	3,688	3,608
Supply cost balancing accounts .....	(121)	(1,237)
Other operating expenses .....	7,364	7,026
Administrative and general expenses .....	13,596	10,746
Depreciation .....	6,756	5,949
Maintenance .....	3,808	3,662
Taxes on income .....	5,744	3,744
Other taxes .....	3,193	2,997
	64,880	54,988
Operating income .....	13,234	9,968
OTHER INCOME .....	236	131
	13,470	10,099
INTEREST CHARGES .....	5,982	5,489
	7,488	4,610
NET INCOME .....	7,488	4,610
DIVIDENDS ON PREFERRED SHARES .....	--	(46)
	\$ 7,488	\$ 4,564
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 7,488	\$ 4,564
	100	100
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	100	100
	\$ 74,880	\$ 45,640
Basic Earnings Per Common Share .....	\$ 74,880	\$ 45,640
	\$ 61,400	\$ 56,433
Dividends Declared Per Common Share .....	\$ 61,400	\$ 56,433

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

All information has been adjusted to reflect formation of holding company in 1998.

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE TWELVE MONTHS  
ENDED JUNE 30, 1999 AND 1998  
(UNAUDITED)

	TWELVE MONTHS ENDED JUNE 30,	
	----- 1999 -----	1998 ----- -----
	(\$ in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 147,902	\$ 133,819
Electric .....	13,250	13,342
	-----	-----
	161,152	147,161
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	31,726	34,146
Power purchased for pumping .....	7,397	7,171
Power purchased for resale .....	6,091	5,337
Groundwater production assessment .....	7,647	6,874
Supply cost balancing accounts .....	1,144	(1,105)
Other operating expenses .....	14,773	13,298
Administrative and general expenses .....	24,733	22,104
Depreciation .....	13,077	11,423
Maintenance .....	7,456	7,165
Taxes on income .....	12,359	10,271
Other taxes .....	6,320	6,162
	-----	-----
	132,723	122,846
	-----	-----
Operating income .....	28,429	24,315
OTHER INCOME .....	1,335	629
	-----	-----
Income before interest charges .....	29,764	24,944
INTEREST CHARGES .....	11,700	10,667
	-----	-----
NET INCOME .....	18,064	14,277
DIVIDENDS ON PREFERRED SHARES .....	0	(92)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 18,064	\$ 14,185
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ...	100	100
	=====	=====
Basic Earnings Per Common Share .....	\$ 180,640	\$ 141,850
	=====	=====
Dividends Declared Per Common Share .....	\$ 120,287	\$ 112,419
	=====	=====

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

All information has been adjusted to reflect formation of holding company in 1998.

SOUTHERN CALIFORNIA WATER COMPANY  
 CONSOLIDATED CASH FLOW STATEMENTS  
 FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998  
 (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	----- 1999	----- 1998
	----- (in thousands) -----	
<b>CASH FLOWS FROM Operating Activities:</b>		
Net income .....	\$ 7,488	\$ 4,610
Adjustments for non-cash items:		
Depreciation and amortization .....	7,017	6,324
Deferred income taxes and investment tax credits .....	768	3,028
Other - net .....	(2,619)	1,314
Changes in assets and liabilities:		
Accounts receivable .....	(1,350)	859
Prepayments .....	446	2,935
Supply cost balancing accounts .....	(122)	(1,241)
Accounts payable .....	3,716	230
Taxes payable .....	1,601	(3,232)
Unbilled revenue .....	(1,819)	(207)
Other .....	2,345	32
Net Cash Provided .....	----- 17,471	----- 14,652
<b>Investing Activities:</b>		
Construction expenditures .....	(21,129)	(19,137)
Net Cash Used .....	----- (21,129)	----- (19,137)
<b>Financing Activities:</b>		
Issuance of securities .....	--	14,999
Receipt of advances and contributions .....	3,263	1,844
Proceeds from long-term debt, net of redemption of preferred shares .....	39,971	486
Refunds on advances .....	(727)	(1,871)
Repayments of notes payable to banks .....	(32,000)	(8,000)
Common and preferred dividends paid .....	(6,140)	(5,688)
Net Cash Provided .....	----- 4,367	----- 1,770
Net Increase (Decrease) in Cash and Cash Equivalents	709	(2,715)
Cash and Cash Equivalents, Beginning of period .....	524	4,186
Cash and Cash Equivalents, End of period .....	----- \$ 1,233 =====	----- \$ 1,471 =====

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

All information has been adjusted to reflect formation of holding company in 1998.

AMERICAN STATES WATER COMPANY  
AND  
SOUTHERN CALIFORNIA WATER COMPANY

NOTES TO FINANCIAL STATEMENTS  
(UNAUDITED)

1. American States Water Company (AWR) was incorporated in 1998 in connection with the formation of a holding company by Southern California Water Company (SCW) and became a public company on July 1, 1998. AWR has no material assets other than the common stock of Southern California Water Company (SCW). SCW is a public utility company engaged principally in the purchase, production, distribution and sale of water, and the distribution and sale of electric energy in several mountain communities. Unless otherwise stated in this report, the term Registrant applies to both AWR and SCW, collectively.
2. For a summary of significant accounting policies and other information relating to these interim financial statements, reference is made to pages 24 through 31 of the 1998 Annual Report to Shareholders of AWR under the caption "Notes to Financial Statements."
3. Basic earnings per common share are calculated pursuant to SFAS No. 128 - Earnings per Share - and are based on the weighted average number of common shares outstanding during each period and net income after deducting preferred dividend requirements. Registrant has no dilutive securities outstanding and, accordingly, diluted earnings per share is not shown.
4. On April 22, 1999, the CPUC issued an order denying SCW's application seeking approval of its recovery through rates of approximately \$3.1 million in costs associated with its participation in the Coastal Aqueduct Extension of the State Water Project ("SWP"). SCW's investment in SWP is currently included in utility plant. SCW is investigating its options to recover its investment in SWP including contributions from developers on a per-lot or other basis or, failing that, sale of its 500 acre-foot entitlement in SWP. Management believes the value of the asset will ultimately be recovered. See the section entitled "Rates and Regulation" for more information.
5. SCW implemented increased water rates in six rate-making districts in January 1999. SCW has filed applications to increase rates in four water ratemaking districts, effective January 2000. See the section entitled "Rates and Regulation" for more information.
6. As permitted by the CPUC, SCW maintains water and electric supply cost balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Recovery or refund of such over/under collections are recorded in income when received from customers and charged to balancing accounts when such costs are incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments.



7. AWR currently has two principal business units: water service and electric distribution utility operations conducted through its SCW subsidiary, and non-regulated activities through its American States Utility Services, Incorporated (ASUS) subsidiary. All activities of Registrant currently are geographically located within the State of California, except for one contract providing customer service and billing services to a utility located in the state of Arizona. SCW is a regulated utility which operates both water and electric systems. Registrant has no material operations other than its SCW subsidiary. 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. SCW manages its operations on a regional basis using the five categories below as broad-level measures of profitability. Included in the amounts set forth, certain assets have been allocated. The identifiable assets are net of respective accumulated provisions for depreciation.

(dollars in thousands)

For The Three Months Ended June 30, 1999

	Water			Electric
	Region I	Region II	Region III	
	Operating revenues	\$6,808	\$17,795	
Operating income before income taxes	1,508	4,855	3,667	665
Identifiable assets	103,075	131,022	172,537	25,234
Depreciation expense	684	1,011	1,348	337
Capital additions	2,036	6,149	4,009	486

(dollars in thousands)

For The Three Months Ended June 30, 1998

	Water			Electric
	Region I	Region II	Region III	
	Operating revenues	\$5,897	\$13,964	
Operating income before income taxes	1,585	2,910	2,584	782
Identifiable assets	92,663	116,389	163,141	25,376
Depreciation expense	639	843	1,230	263
Capital additions	5,220	3,478	3,172	505

(dollars in thousands)

For The Six Months Ended June 30, 1999

	Water			Electric
	Region I	Region II	Region III	
	Operating revenues	\$12,130	\$32,667	
Operating income before income taxes	2,326	7,770	6,584	2,298
Identifiable assets	103,075	131,022	172,537	25,234
Depreciation expense	1,368	2,020	2,696	672
Capital additions	5,710	10,457	6,401	958

(dollars in thousands)

For The Six Months Ended June 30, 1998

	Water			Electric
	Region I	Region II	Region III	
	Operating revenues	\$10,535	\$26,081	
Operating income before income taxes	2,341	5,415	3,861	2,095
Identifiable assets	92,663	116,389	163,141	25,376

Depreciation expense  
Capital additions

1,278  
7,746  
-----

1,686  
5,914  
-----

2,459  
7,089  
-----

526  
887  
-----

(dollars in thousands)

For The Twelve Months Ended June 30, 1999

	Water			Electric
	Region I	Region II	Region III	
	Operating revenues	\$26,523	\$63,858	
Operating income before income taxes	6,784	14,088	15,866	4,050
Identifiable assets	103,075	131,022	172,537	25,234
Depreciation expense	2,646	3,705	4,938	1,788
Capital additions	11,283	27,601	6,493	1,798

(dollars in thousands)

For The Twelve Months Ended June 30, 1998

	Water			Electric
	Region I	Region II	Region III	
	Operating revenues	\$23,708	\$58,449	
Operating income before income taxes	6,170	12,328	11,591	4,497
Identifiable assets	92,663	116,389	163,141	25,376
Depreciation expense	2,434	3,203	4,758	1,028
Capital additions	12,786	20,233	10,430	2,083

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

### FORWARD-LOOKING INFORMATION

Certain matters discussed in this report (including any 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 the Company or 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 that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rates, water quality and other regulatory matters, adequacy of water supplies, liquidity and capital resources, opportunities related to operations of municipally-owned water systems and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as utility restructuring, including ongoing local, state and federal activities; future economic conditions, including changes in customer demand and changes in market conditions for debt and equity; future climatic conditions; legislative, regulatory and other circumstances affecting anticipated revenues and costs; the number and effectiveness of competitors in Registrant's markets; changes in legislation; the nature and pace of technological changes; Registrant's ability to identify future markets and successfully expand existing ones; the mix of products and services offered in Registrant's target markets; and abilities of other companies to remain or become year 2000 ready. These important factors should be considered in evaluating any statement contained herein and/or made by Registrant or on its behalf.

### GENERAL

American States Water Company (AWR) was incorporated in 1998 in connection with the formation of a holding company by Southern California Water Company (SCW) and became a public company on July 1, 1998. AWR has no material assets other than the common stock of SCW. SCW is a public utility company engaged principally in the purchase, production, distribution and sale of water (SIC No. 4941). SCW also distributes electricity in one customer service area (SIC No. 4911). SCW is regulated by the California Public Utilities Commission (CPUC) and was incorporated on December 31, 1929 under the laws of the State of California. AWR has another subsidiary, American States Utility Services, Inc. (ASUS) which contracts to lease, operate and maintain governmentally owned water and wastewater systems and to provide other services to local governments to assist them in the operation and maintenance of their water and wastewater systems. Neither AWR nor ASUS are regulated by the CPUC.

SCW is organized into three regions and one electric customer service area operating within 75 communities in 10 counties in the State of California and provides water service in 21 customer service areas. Region I incorporates 7 customer service areas in northern and central California; Region II has 4 customer service areas located in Los Angeles; Region III incorporates 10 water customer service areas. SCW also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County. All electric energy sold by SCW to customers in its Bear Valley Electric customer service area was purchased under an energy brokerage contract with Sempra Energy Corporation prior to May 1, 1999, and with Illinova Energy Partners since May 1, 1999.

SCW served 243,297 water customers and 20,933 electric customers at June 30, 1999, or a total of 264,230 customers, compared with 262,713 total customers at June 30, 1998.

SCW's utility operations exhibit seasonal trends. Although SCW's water utility operations have a diversified customer base, revenues derived from commercial and residential water customers accounted for approximately 86.5%, 89.9% and 90.5% of total water revenues for the three, six and twelve months ended June 30, 1999, respectively as compared to 86.7%, 91.8% and 92.2% for the three, six and twelve months ended June 30, 1998, respectively.

#### RESULTS OF OPERATION

Basic earnings per common share for the three months ended June 30, 1999 increased by 58.1% to \$0.49 per share as compared to \$0.31 per share for the comparable period last year. Basic earnings per common share for the six months ended June 30, 1999 increased by 60.8% to \$0.82 per share as compared to \$0.51 per share for the comparable period last year. Basic earnings for the twelve months ended June 30, 1999 increased by 22.2% to \$1.93 per share as compared to \$1.58 per share for the twelve months ended June 30, 1998. The increase in the recorded results primarily reflects higher revenues during the first two quarters of 1999 as is more fully discussed below.

As compared to last year, water sales volumes for the three, six and twelve months ended June 30, 1999 increased by 18.5%, 17.3% and 6.2% as compared to last year due primarily to the much drier and warmer weather conditions throughout Southern California this year. Water operating revenues for the three, six and twelve months ended June 30, 1999 increased by 22.2%, 22.7%, and 10.7%, respectively, from the same periods ended June 30, 1998 due to the increase in water volumes sold and the general rate increases effective January 1, 1999. Registrant implemented new rates in six of its customer service areas in January 1999. See the section entitled "Rates and Regulation" for more information.

For the three months ended June 30, 1999, kilowatt-hour sales of electricity decreased slightly by 1.5% as compared to the same period ended June 30, 1998 and, as a result, electric operating revenues for the quarter ended June 30, 1999 decreased by 1.2%. Kilowatt-hour sales increased by 3.6% and 2.1%, respectively, for the six and twelve months ended June 30, 1999 as compared to last year due principally to lack of winter snows experienced in Registrant's service area during the first quarter of this year, which increased the use of snow making machines. Electric operating revenues for the six and twelve month periods ending June 30, 1999 increased only by 0.7% and decreased slightly by 0.7%, respectively, over the comparable periods last year due to the fact that the increases in kilowatt-hour sales were mainly contributed by industrial power users, billed at relatively lower rates.

Purchased water costs decreased by 9.6% for the three months ended June 30, 1999 as compared to the same period ending in 1998 due to a refund of \$1.4 million received by SCW in April 1999 from the Water Replenishment District of Southern California (WRD), offset by a 9.4% increase in volumes purchased due to higher sales volumes. For the six months ended June 30, 1999, purchased water costs increased by 6.7% as compared to the same period last year, reflecting a 14.0% increase in volumes purchased, partially offset by the above mentioned WRD refund. As compared to the twelve months ended June 30, 1998, purchased water costs decreased by 7.1% due to an additional WRD refund of \$1.4 million received in December 1998. The twelve-month comparison is also affected by reimbursements from potentially responsible parties related to contamination in SCW's Culver City CSA of approximately \$2,143,000 received during the twelve months ended June 30, 1998 compared with reimbursements of \$1,145,000 received during the period ended June 30, 1999. See the section entitled "Environmental Matters - Matters Related to Culver City System."

Cost of power purchased for pumping increased by 19.2%, 14.8% and 3.2%, respectively, for the three, six and twelve months ended June 30, 1999 as compared to the same periods ended June 30, 1998 due to an increase in pumped groundwater in SCW's water supply mix due to the increased sales volumes.

As compared to the three, six and twelve months ended June 30, 1998, the cost of power purchased for resale increased by 120.4%, 44.1% and 14.1%, respectively, for the three, six and twelve months ended June 30, 1999 due primarily to additional accruals for energy demand charges from Registrant's energy supplier in the second quarter of 1999.

Groundwater production assessments are 7.0% lower for the three months ended June 30, 1999 due primarily to a one-time reclassification from this category to purchased water during the second quarter of 1999. For the six and twelve months ended June 30, 1999, groundwater production assessments increased by 2.2% and 11.2%, respectively, reflecting increased volumes of pumped water in SCW's total water supply and additional assessments particularly associated with increased pumping in SCW's Metropolitan and Orange County customer service areas.

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. Registrant currently has a net under-collection position. Recovery of previously under-collected supply cost was higher for the three, six and twelve months ended June 30, 1999 than the same periods of 1998 due to rates effective January 1999, authorized to implement new supply costs and to increase collection of these under-collected costs. The WRD refunds discussed previously helped to decrease previously under-collected supply costs.

Other operating expenses increased by 2.2%, 5.1% and 11.4%, respectively, for the three, six and twelve months ended June 30, 1999 as compared to the same periods ended June 30, 1998 reflecting increased costs for water treatment, and higher amounts accrued for uncollectible accounts as a result of increased revenues. The twelve-month comparison was also affected by increased construction work being performed during the last six months of 1997 which increased labor amounts capitalized, which otherwise would have been charged to this category. In addition, reversals in late 1997 of costs associated with recovery of water quality expenditures through the CPUC's memorandum account mechanism also contributed to the increase. There were no such reversals of similar magnitude for the twelve months ended June 30, 1999.

Administrative and general expenses increased by 36.9%, 28.0% and 13.1% for the three, six and twelve months ended June 30, 1999 as compared to the same periods ended June 30, 1998. This increase is due principally to an increase in costs associated with the terminated acquisition of Dominguez Services Corp., increased employee benefit costs, and additional amounts reserved for certain legal proceedings. See the section entitled "Legal Proceedings" for more information.

Depreciation expense increased by 13.6%, 15.8% and 18.0%, respectively, for the three, six and twelve months ended June 30, 1999 reflecting, among other things, the effects of recording approximately \$38 million in net plant additions during 1998, depreciation on which began in January 1999. In addition, the final amortization of start-up and organizational costs associated with the formation of AWR is reflected in the twelve months ended June 30, 1999. There were no similar amortization costs for the twelve months ended June 30, 1998.

As compared to the three months ended June 30, 1998, maintenance expense decreased by 8.4% during the second quarter of 1999 due to a temporary shift from maintenance to capital projects.

Maintenance expense increased by 4.0% and 4.1% for the six and twelve months ended June 30, 1999 as compared to the six and twelve months ended June 30, 1998, respectively, reflecting the effects of the wet weather conditions experienced earlier in 1998 which hindered maintenance activities. SCW anticipates that maintenance expenses will increase during the remaining six months of 1999.

Taxes on income increased by 50.5%, 52.0% and 17.6% for the three, six and twelve months ended June 30, 1999 as compared to the three and twelve months ended June 30, 1998 as a result of higher pre-tax income.

Other taxes increased by 8.2%, 6.6% and 2.6%, respectively, for the three, six and twelve months ended June 30, 1999, respectively, as compared to the same periods last year reflecting increased franchise fee payments resulting from higher revenues, and increased property taxes due to higher property valuation assessments.

As compared to the same periods ended June 30, 1998, other income for the three and six months ended June 30, 1999 increased due to reduced expenditures related to SCW's non-regulated joint-venture which was terminated in December 1998. As compared to the twelve months ended June 30, 1998, other income increased by 42.6% in the comparable period ended June 30, 1999 due principally to the flow-through of tax benefits related to refinancing of long-term debt, partially offset by costs incurred in December 1998 associated with termination of the non-regulated joint venture agreement.

Interest expense increased by 7.1%, 9.0% and 9.7% for the three, six and twelve months ended June 30, 1999 as compared to the three, six and twelve months ended June 30, 1998, respectively. The increases are due to \$40 million in additional long-term debt issued in January, 1999, partially offset by the retirement of \$10 million of 10.10% note in December, 1998. The six-month and twelve-month comparisons are also affected by the issuance of \$15 million in long-term debt in March 1998.

#### LIQUIDITY AND CAPITAL RESOURCES

AWR funds its operating expenses, dividends on its outstanding Common and Preferred Shares and makes its mandatory sinking fund payments principally through dividends from SCW. AWR has filed a Registration Statement 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. The proceeds will be used primarily for investment in its subsidiaries. As of June 30, 1999, no securities had been issued under this Registration Statement.

SCW funds the majority of its operating expenses, interest payments on its debt and dividends on its outstanding Common Shares through internal sources. SCW continues to rely on external sources, including short-term bank borrowing, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures.

SCW issued \$40 million in long-term debt in January 1999 under a Registration Statement filed with the SEC. The funds were used to reduce short-term bank borrowings. The aggregate short-term borrowing capacity available to SCW under its three bank lines of credit was \$47 million as of June 30, 1999. As of that date, Registrant had a total of \$6 million in borrowing outstanding under those bank lines of credit. Because of the seasonal nature of its water and electric operations, SCW utilizes its short-term borrowing capacity to finance current operating expenses.

SCW's construction program is designed to ensure its customers high quality service. SCW maintains an ongoing distribution main replacement program throughout its customer service areas, based

on the priority of leaks detected, fire protection enhancement and a reflection of the underlying replacement schedule. In addition, SCW upgrades its electric and water supply facilities in accordance with industry standards, local requirements and CPUC requirements. SCW's Board of Directors has approved anticipated net capital expenditures of approximately \$42.1 million for 1999. Neither AWR nor ASUS have any material capital expenditures.

#### WATER SUPPLY

For the three months ended June 30, 1999, SCW supplied a total of 21,224,000 ccf of water as compared to 18,749,000 ccf for the three months ended June 30, 1998. Of the total 21,224,000 ccf of water supplied during the second quarter of 1999, approximately 60.4% came from pumped sources and 38.0% was purchased from others, principally the Metropolitan Water District of Southern California (MWD) and its member agencies. The remaining 1.6% of total supply came from the United States Bureau of Reclamation (the "Bureau") under a no-cost contract. For the three months ended June 30, 1998, 60.6%, 39.3% and 0.1% was supplied from pumped sources, purchased from MWD and the Bureau, respectively.

For the six months ended June 30, 1999, SCW supplied a total of 37,289,000 ccf of water, 61.2% of which came from pumped sources, 37.9% was purchased and the remaining amount was supplied by the Bureau. During the six months ended June 30, 1998, SCW produced 32,635,000 ccf of water. Of this amount 61.9% came from pumped sources, 38.0% was purchased and the remainder was provided by the Bureau.

During the twelve months ended June 30, 1999, SCW supplied 83,031,000 ccf of water as compared to 78,581,000 ccf supplied during the twelve months ended June 30, 1998. During the twelve month period ended June 30, 1999, pumped sources provided 60.6% of total supply, 38.9% was purchased from MWD and the remaining 0.5% was supplied by the Bureau. For the twelve months ended June 30, 1998, 56.8%, 41.4% and 1.8%, respectively, was supplied from pumped sources, purchased from MWD and the Bureau.

The MWD is a water district organized under the laws of the State of California for the purpose of delivering imported water to areas within its jurisdiction. SCW has 52 connections to the water distribution facilities of MWD and other municipal water agencies. MWD imports water from two principal sources: the Colorado River and the State Water Project (SWP). Available water supplies from the Colorado River and the SWP have historically been sufficient to meet most of MWD's requirements and MWD's supplies from these sources are anticipated to continue to remain adequate through 1999. MWD's import of water from the Colorado River is expected to decrease in future years due to the requirements of the Central Arizona Project in the State of Arizona. In response, MWD has taken a number of steps to construct additional storage capacity and increase available water supplies, including effecting transfers of water rights from other sources.

The outlook for water supply in 1999 remains favorable. Water year forecasts made by the California Department of Water Resources (DWR) are about 110 percent of average statewide ranging from 130 percent in the North Coast region to 65 percent in the southern Sierra. California's northern reservoirs remain near full capacity. Although rainfall in Southern California is about one-half of normal level, in



those customer services areas of SCW which pump groundwater, overall groundwater conditions and supplies remain at adequate levels.

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

SCW currently tests its wells and water systems according to requirements listed in the SDWA. Water from wells found to contain levels of contaminants above the established MCLs is treated before it is delivered to customers.

Since the SDWA became effective, SCW has experienced increased operating costs for testing to determine the levels, if any, of the constituents in SCW's sources of supply and additional expense to lower the level of any contaminants in order to meet the MCL standards. Such costs and the costs of controlling any other contaminants may cause SCW to experience additional capital costs as well as increased operating costs.

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

##### Proposed Enhanced Surface Water Treatment Rule

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

such contaminants. The EPA has adopted an Interim ESWTR applicable only to systems serving greater than 10,000 persons. The long-term ESWTR, in any of the forms currently proposed, would apply to each of SCW's five surface water treatment plants and is expected to be promulgated by November 2000. However, because it is impossible to predict the version of the ESWTR that will be promulgated, Registrant is unable to predict what additional costs, if any, will be incurred to comply with the ESWTR.

#### Regulation of Disinfection/Disinfection By-Products

Registrant is also subject to the new regulations concerning disinfection/disinfection by-products (DBP's), Stage I of which regulations were effective in November, 1998 with full compliance required by 2001. Stage I requires reduction of tri-halomethane contaminants from 100 micrograms per liter to 80 micrograms per liter. Two of SCW's systems are immediately impacted by this rule. SCW implemented modifications to the treatment process in its Bay Point and Cordova systems. It is anticipated that both systems will be in full compliance by 2001.

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

#### Ground Water Rule

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

#### Regulation of Radon and Arsenic

Registrant will be subject to new regulations regarding radon and arsenic. EPA must propose an arsenic rule by January 1, 2000 and adopt a rule one year later. The EPA originally had 180 days after enactment of the 1996 SDWA amendments to develop a plan to study ways to reduce arsenic health risk uncertainties and was authorized to enter into cooperative agreements to carry out the study. It is anticipated that the completed study will be available for review in 1999. Depending on the MCL eventually established for arsenic, compliance could cause Registrant to implement costly well-head treatment remedies such as ion exchange or, alternatively, to purchase additional and more expensive water supplies already in compliance, for blending with well sources.

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

reduction, by the end of August 1999. Although Registrant is unable to predict the standard for radon, Registrant itself is currently conducting studies to determine the best treatment for affected wells.

#### Voluntary Efforts to Exceed Surface Water Treatment Standards

SCW is a voluntary member of the EPA's "Partnership for Safe Water", a national program designed to further protect the public from diseases caused by cryptosporidium and other microscopic organisms. As a volunteer in the program, SCW commits to exceed current regulations governing surface water treatment to ensure that its surface treatment facilities are performing as efficiently as possible.

#### Fluoridation of Water Supplies

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

#### Matters Relating to Arden-Cordova System

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

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

SCW and Aerojet-General Corporation are in negotiations on other matters related to procedures to address cleanup of the contaminated wells, costs associated with the cleanup, increased costs of purchased water as compared to pumped sources and costs associated with developing new sources of groundwater supply. SCW and Aerojet-General Corporation are attempting to negotiate an agreement on these matters. The agreement would require initial payment of approximately \$950,000 for costs associated with certain water supply facilities. The remainder of the costs is subject to further reimbursement, including interest, over no more than a fifteen month period. Assuming the negotiations are consummated favorably to SCW, the reimbursement from Aerojet-General reduces SCW's utility plant and costs of purchased water. SCW remains vigilant in its efforts to assure a safe water supply is

available to customers in its Arden-Cordova system from the local groundwater basin, although no assurance can be given that current or future negotiations will successfully address this objective.

#### Matters Relating to Culver City System

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

Several studies are under way to determine the possible sources and causes of the MTBE contamination. The federal EPA is pursuing an enforcement effort to reach a settlement with the potentially responsible parties on matters relating to the cleanup of the contamination. Registrant is unable to predict the outcome of the EPA's enforcement efforts. Pursuant to an agreement with SCW, two of the potentially responsible parties have reimbursed SCW's legal and consulting costs related to this matter as well as for increased costs incurred by SCW in purchasing replacement water. SCW and such parties have negotiated a month-to-month extension of this agreement which is anticipated to remain effective until the underlying groundwater basin contamination is remediated. No assurances can be given that current or future negotiations will result in complete restoration of SCW's water rights or that continued reimbursement of SCW's costs will be forthcoming.

#### Bear Valley Electric

SCW has been, in conjunction with the Southern California Edison unit of Edison International, planning to upgrade transmission facilities to 115kv (the "115kv Project") in order to meet increased energy and demand requirements. The 115kv Project is subject to an environmental impact report (EIR) and delays in approval of the EIR may impact service in SCW's Bear Valley electric customer service area. SCW has, however, taken other measures, including some measures that will be enacted on an emergency basis, to meet load growth in order mitigate delays in approval of the EIR.

#### RATES AND 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 convenience and necessity as to the extension of services and facilities and various other matters. AWR and ASUS are not directly regulated by the CPUC. The CPUC does, however, regulate certain transactions between SCW and its unregulated affiliates.

The 22 customer service areas of SCW are grouped into 16 water districts and one electric district for ratemaking purposes. Water rates vary among the 16 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: general rate case increases (GRC's), offsets for certain expense increases and advice letter filings related to certain plant additions. GRC's are typically for three-year periods, which include step increases for the second and third year. Rates are based on

projected expenses and capital costs. GRC's have a typical regulatory lag of one year. Offset rate increases typically have a two to four month regulatory lag.

New water rates were implemented in three of SCW's customer service areas in January 1, 1998 to recover costs associated with capital projects in those areas. Step increases in rates were effective in April 1998 in Barstow and in May 1998 in Santa Maria. Increased rates for six additional water ratemaking districts and recovery of costs associated with SCW's general office functions were effective January 1, 1999. Step increases in rates for Arden-Cordova, Bay Point and Los Osos were also effective in January, 1999.

Applications to increase water rates were filed for four water ratemaking districts in March 1999. SCW and CPUC Staff are in the final stages of a settlement on all issues in these cases although it is not anticipated that new rates, if authorized in total or in part by the CPUC, would be effective prior to January 1, 2000.

SCW has filed an application with the CPUC to combine tariff schedules into regional rates for the customer service areas that make up SCW's Region III. A final decision from the CPUC is anticipated by the fourth quarter of 1999.

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

The CPUC also has two active Orders Instituting Rulemaking (OIR) - one to provide guidelines for acquisition and mergers of water companies; the other to provide guidelines for the privatization and use of excess capacity as it relates to regulated water companies. The administrative law judge assigned to the OIR on privatization and excess capacity has issued a proposed order in that proceeding. SCW is reviewing the proposed decision but believes that it does not adequately reflect the record. As such, SCW has provided comments on the proposed decision. SCW is unable to predict the outcome of the CPUC's final order in either of the OIR's.

On April 22, 1999, the CPUC issued an order denying SCW's application seeking approval of its recovery through rates of approximately \$3.1 million in costs associated with its participation in the Coastal Aqueduct Extension of the State Water Project ("SWP"). SCW's investment in SWP is currently included in utility plant. SCW is investigating its options to recover its investment in SWP including contributions from developers on a per-lot or other basis or, failing that, sale of its 500 acre-foot entitlement in SWP. SCW believes that its full investment and on-going costs associated with its ownership will be fully recovered. See the "Notes to Financial Statements" for more information.

#### YEAR 2000 ISSUE

Registrant continues to evaluate its exposure to the Year 2000 (Y2K) problem that arises from the fact that many existing computer systems may contain date sensitive embedded technology that uses only two digits to identify a year in the date field. Based on the assumption that the first two digits of the date field are always "19", such systems may misinterpret dates after December 31, 1999.

Because Registrant is dependent upon the proper functioning of these computer systems and other equipment containing date sensitive technology, a failure of these systems could have a material and adverse affect on Registrant resulting in business interruption or shutdown, financial loss, regulatory citations and legal liability.

Registrant has been actively assessing its Y2K readiness since early 1997 and has inventoried its significant computer hardware and software programs. Since Registrant is dependent upon its management information and customer service systems, upgrades to these systems have been a priority. Registrant has, since 1995, been in the process of replacing and/or upgrading as necessary its core business information and operating systems with newer technologies, all of which are intended to be Y2K ready. All major upgrades to these systems are completed and were operational at year-end 1998. Costs associated with the implementation and upgrade of major management information and customer service software systems, as well as upgrades to mainframe hardware systems, have been approved by the CPUC and are being recovered through rates.

In addition to work being done on its internal systems, Registrant has sought compliance certification from external vendors and service providers. Testing on Registrant's interface with financial and other institutions with which it does business is being conducted to ensure Y2K readiness. In order to more fully address Y2K readiness of its field equipment, major vendors and service providers, Registrant engaged the services of a nationally-recognized business consulting firm and has completed its written plan to address the Y2K issue. Registrant has established a Year 2000 Task Force consisting of senior management and operating personnel which will complete the inventory of computer systems and other devices with embedded technology, as well as other considerations potentially not revealed in preliminary internal analyses.

Registrant's general process for addressing the Y2K issue is (i) to inventory all systems that may have a potential Y2K impact, (ii) to determine the materiality of these non-Y2K ready systems, (iii) to replace and test, correct and test, or prepare for the failure of material items that have been determined to be non-Y2K ready, and (iv) to prepare contingency plans. Some, less critical systems may not be fully Y2K ready, but are not anticipated to materially affect Registrant's operations.

Registrant is significantly dependent on third party suppliers, such as energy and telecommunication companies and wholesale water suppliers. In order to conduct its business, Registrant has initiated due diligence with certain of its major service providers to address their Y2K readiness. In the event that such suppliers might be adversely affected by Y2K, Registrant is preparing its contingency plan which will likely include, among other things, increased staffing during critical periods, manual back-up for automated systems and the use of portable generators capable of providing power during a black-out. Registrant does not have, and may never fully have, sufficient information about the Y2K exposure or remediation plans of these third parties to adequately predict the risks posed by them to Registrant. If the third parties have Y2K problems that are not remedied, resulting problems could include loss of utility services and disruption of water supplies.

To date, there have been no significant costs associated with Y2K readiness that have not been approved by the CPUC for recovery through rates. Registrant estimates that it may incur up to \$800,000 in expense depending on the results of on-going tests, to address Y2K readiness. Registrant believes that the future costs, which are prudently incurred, will also be allowed for recovery through rates. The CPUC has notified all utilities under its jurisdiction, including SCW, that it will review their Y2K preparations. SCW has submitted its Y2K contingency plan to the CPUC in accordance with its direction.

## RISK FACTOR SUMMARY

This section (written in plain English) summarizes certain risks of our business that may affect our future financial results. We also periodically file with the Securities and Exchange Commission documents that include more information on these risks. It is important for investors to read these documents.

## Litigation

SCW has recently been sued in eleven water-quality related lawsuits:

- o a suit filed on April 24, 1997 alleging personal injury and property damage as a result of the sale of water from wells located in an area of the San Gabriel Valley that has been designated a federal superfund site
- o a suit filed on November 3, 1997 alleging personal injury and property damage as a result of the sale of water; few of our systems are located in the geographical area covered by this suit
- o a suit filed on January 8, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water in SCW's Arden-Cordova service area
- o a suit filed on February 2, 1998 alleging personal injury and property damage as a result of the sale of water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- o a suit filed on February 4, 1998 alleging personal injury and property damage as a result of the sale of water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- o a suit filed in April 1998 alleging personal injury and property damage as a result of the delivery of contaminated water in SCW's Arden-Cordova service area
- o three suits filed on July 30, 1998 alleging personal injury and property damage as a result of the sale of water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- o a suit filed on December 30, 1998 alleging personal injury and property damage as a result of the sale of water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- o a suit filed in July 1999 alleging personal injury and property damage as a result of the sale of water from wells located in an area of the San Gabriel Valley that has been designated a superfund site

In March 1998, the CPUC issued an order instituting investigation (the "OII") as a result of these types of suits being filed against water utilities in California. The CPUC is seeking to determine:

- o whether existing standards and policies regarding drinking water quality adequately protect the public health
- o whether water utilities are following existing standards

The lawsuits have been stayed pending the outcome of the OII and, in the case of those lawsuits related to the San Gabriel Valley, a hearing to be held on August 23, 1999 before the First District Court of Appeals. We anticipate that the CPUC will issue a decision in the OII on or about September 30, 1999. We are unable to predict the nature of the Court's actions, the CPUC's final decision or the outcome of the lawsuits. An adverse outcome in this type of litigation is, however, likely to be material.

The CPUC has authorized a memorandum account for legal expenses incurred by water utilities, including SCW, in the water quality lawsuits. 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.

#### Environmental Regulation

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

- o the 1996 amendments to the Safe Drinking Water Act that require increased testing and treatment of water to reduce specified contaminants to minimum containment levels
- o interim regulations expected to be adopted before the end of 2000 requiring increased surface-water treatment to decrease the risk of microbial contamination; these regulations will affect SCW's five surface water treatment plants
- o 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
- o additional regulations expected to be adopted before the end of 2000 requiring disinfection of certain groundwater systems; these regulations will potentially impact several of SCW's systems using groundwater supplies
- o potential regulation of radon and arsenic
- o new California requirements to fluoridate public water systems serving over 10,000 customers

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

#### Rates and Regulation

SCW is subject to regulation by the CPUC. AWR and ASUS are not directly subject to CPUC regulation. The CPUC may, however, regulate transactions between SCW and AWR, including the manner in which overhead costs are allocated between SCW and AWR and the pricing of services rendered by SCW to AWR.

SCW's revenues depend substantially on the rates that it is permitted to charge its customers. SCW may increase rates in three ways:

- o by filing for a general rate increase
- o by filing for recovery of certain expenses
- o by filing an "advice letter" for certain plant additions, thereby increasing rate base

In addition, SCW recovers certain supply costs through a balancing account mechanism. Supply costs include the cost of purchased water and power and groundwater production assessments. The balancing account mechanism is intended to insulate SCW's earnings from changes in supply costs that



are beyond SCW's control. The balancing account is not, however, designed to insulate SCW's earnings against changes in supply mix. As a result, SCW may not recover increased costs due to increased use of purchased water through the balancing account mechanism. In addition, balancing account adjustments, if authorized by the CPUC, may result in either increases or decreases in revenues attributable to supply costs incurred in prior periods, depending upon whether there has been an undercollection or overcollection of supply costs.

There are also a number of matters pending before the CPUC that may affect our future financial results. These matters include:

- o applications filed by SCW to increase rates in four of its 16 rate-making jurisdictions; a final decision is not expected until near year-end 1999 although a tentative settlement has been worked out
- o an application filed to consolidate the rate-making jurisdictions located in SCW's Region III area into a single tariff
- o the OII
- o new guidelines under consideration by the CPUC for the acquisition and merger of water utilities and for privatization transactions

#### Adequacy of Water Supplies

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

- o rainfall
- o the amount of water stored in reservoirs
- o the amount used by our customers and others
- o water quality, and
- o legal limitations on use.

As a result of heavier than normal rainfall in the winter of 1998-1999, most of California's reservoirs remain at or near capacity and the outlook for water supply in the near term is generally favorable. Population growth and increases in the amount of water used have, however, increased limitations on use to prevent overdrafting of groundwater basins. The import of water from the Colorado River, one of our important sources of supply, is expected to decrease in future years due to the requirements of the Central Arizona Project. We also have in recent years taken wells out of service due to water quality problems.

Water shortages could be caused by above factors and may affect us in several ways:

- o they adversely affect supply mix by causing us to rely on more expensive purchased water
- o they adversely affect operating costs
- o 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. We are currently completing negotiations with Aerojet General Corporation regarding costs associated with the cleanup of the groundwater supply for our Arden-Cordova System and for the increased costs of purchasing water and developing new sources of groundwater supply. We are also negotiating with two potentially responsible parties on matters relating to the clean-up and purchase of replacement water in the Charnock Basin located in the cities of Santa Monica and Culver City. These two potentially responsible parties have previously reimbursed us for replacement water and certain legal and consulting expenses. The Charnock Basin is in SCW's service territory.

### ITEM 3. 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. The disclosure required is, therefore, not applicable.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

SCW is a defendant in eleven lawsuits involving several claims pertaining to water quality. Nine of the lawsuits involve customer service areas located in Los Angeles county in the southern portion of the State of California; two of the lawsuits involve a customer service area located in Sacramento county in northern California.

On April 24, 1997, a complaint in multiple counts seeking recovery for negligence, wrongful death, strict liability, trespass, public nuisance, private nuisance, negligence per se, strict liability for ultrahazardous activities and fraudulent concealment was filed in Los Angeles Superior Court on behalf of approximately 145 plaintiffs (the "Adler Matter"). After preliminary Demurrers and Motions to Strike, these same plaintiffs filed a First Amended Complaint on or about October 16, 1997 seeking recovery on essentially the same theories. Plaintiffs allege SCW has provided and continues to provide them with allegedly contaminated water from wells located in an area of the San Gabriel Valley that has been designated a federal environmental superfund site, and that the maintenance of this contaminated well water has resulted in contamination of the soil, subsurface soil, and surrounding air, with trichloroethylene (TCE), perchloroethene (PCE), carbon tetrachloride and other solvents. Plaintiffs further allege that SCW's actions have caused, and continue to cause, injuries to the plaintiffs. Plaintiffs seek damages, including general, special, and punitive damages, according to proof at trial, as well as attorney's fees on certain causes of action, costs of suit, and other unspecified relief.

On June 24, 1998, the judge assigned to the Adler Matter, acting on the Court's own motion, issued a stay of all proceedings in the Adler matter pending the outcome of the CPUC's Order Instituting Investigation (OII) proceeding described below. Plaintiffs in the Adler matter petitioned the Second District Court of Appeal for a Writ of Mandamus to have the stay lifted. Prior to hearings before the Appellate Court, the Court advised all parties of a potential conflict of interest due to the fact that two clerical staff members of the Court were plaintiffs in one of the consolidated cases, Santamaria v. Suburban Water Systems. As a result, the Adler matter and all the consolidated cases were transferred to the First District Court of Appeal in San Francisco. The Writ of Mandamus was heard by the First District Appellate Court on April 19, 1999.

SCW was served on November 3, 1997 as Doe 1 in the matter of Santamaria v. Suburban Water Systems which was filed in Los Angeles Superior Court (the "Santamaria Matter"). On August 27, 1998, the judge assigned to the Santamaria Matter sustained SCW's demurrer without leave to amend and dismissed the action against SCW. Plaintiff's filed a Notice of Appeal with the Second District Court of

Appeals and this matter was consolidated with the Adler and other cases. A conflict of interest arose as was mentioned previously. As a result, the Notice of Appeal was transferred to the First District Court of Appeal. The Santamaria matter heard by the First District Appellate Court on April 19, 1999, along with the other cases. Registrant is unable to predict at this time what actions the Court may take or what rulings the Court may make with regard to these matters.

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

On October 13, 1998, a complaint in multiple counts was filed in Los Angeles Superior Court, styled *Anderson, et al. v. Suburban Water Systems, et al.*, which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of 180 plaintiffs (the "Anderson Matter"). Plaintiff's seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW has not yet been served in this matter.

On December 30, 1998, SCW was named as a defendant in a complaint in multiple counts, styled *Abarca, et al. v. City of Pomona, et al.*, filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of 383 plaintiffs (the "Abarca Matter"). Plaintiff's seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served on June 18, 1999.

SCW was served on March 19, 1999 as Doe 1 in the matter styled *Celi, et al. v. San Gabriel Valley Water Company, et al.*, filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, public continuing nuisance, public permanent nuisance, private permanent nuisance, private continuing nuisance, negligence per se, absolute liability for ultrahazardous activity and fraudulent concealment (the "Celi Matter"). Plaintiff's seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief.

SCW was served on March 19, 1999 as Doe 3 in the matter styled *Boswell, et al. v. Suburban Water Systems, et al.*, filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, public continuing nuisance, public permanent nuisance, private permanent nuisance, private continuing nuisance, negligence per se, absolute liability for ultrahazardous activity and fraudulent concealment (the "Boswell Matter"). Plaintiff's seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief.

SCW was served on March 19, 1999 as Doe 1 in the matter styled Demciuc, et al. v. Suburban Water Systems, et al., filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, public continuing nuisance, public permanent nuisance, private permanent nuisance, private continuing nuisance, negligence per se, absolute liability for ultrahazardous activity and fraudulent concealment (the "Demciuc Matter"). Plaintiff's seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief.

SCW was served on March 19, 1999 as Doe 1 in the matter styled Criner, et al. v. San Gabriel Valley Water Company, et al., filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, public continuing nuisance, public permanent nuisance, private permanent nuisance, private continuing nuisance, negligence per se, absolute liability for ultrahazardous activity and fraudulent concealment (the "Criner Matter"). Plaintiff's seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief.

SCW was named as a defendant, along with the City of Pomona, California and Xerox Corporation in the matter styled Adejare, et al. v. Southern California Water Company, et al., filed in Los Angeles Superior Court which seeks recovery for wrongful death, battery and fraudulent concealment (the "Adejare Matter"). Plaintiff's seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief.

By Stipulation, the Abarca, Adejare, Anderson, Boswell, Celi, Criner, Domciuc and Dominguez Matters have been "attached" to the Adler Matter, and the parties have agreed that each of these matter will be bound by actions taken in the Adler Matter, together the "Consolidated Matters." Parties to the Stipulation have, however reserved any rights that might be distinct in each of the consolidated Matters. Thus, the Consolidated Matters are presently under the same stay order as was issued in the Adler Matter. A hearing is scheduled for August 23, 1999 to address a motion filed by the plaintiff's requesting that the stay currently in effect for Consolidated Matters be lifted, that the CPUC does not, in fact, have jurisdiction over the issues in the consolidated matters and that each of the matters be allowed to continue. SCW is unable to predict what action, if any, the Court of Appeals may take in this request.

In January 1998 SCW was named a defendant in the matter of Nathaniel Allen, Jr., et al. v. Aerojet-General Corporation, et al which was filed in Sacramento Superior Court. The complaint makes claims based on wrongful death, personal injury, property damage as a result of nuisance and trespass, medical monitoring, and diminution of property values (the "Allen Matter"). Plaintiffs allege that SCW and other defendants have delivered water to plaintiffs which allegedly is, or has been in the past, contaminated with a number of chemicals, including TCE, PCE, carbon tetrachloride, perchlorate, Freon-113, hexavalent chromium and other, unnamed, chemicals. SCW filed Demurrers and Motion to Strike in this matter on June 5, 1998. On August 31, 1998, the judge assigned to the Allen Matter, acting on the Court's own motion, issued a stay of all proceedings in the Allen matter pending the outcome of the CPUC's OII proceeding. The plaintiff's petitioned the Third District Court of Appeal for a Writ of Mandamus to overrule the stay. The Court denied the petition. Plaintiff's then petitioned the California Supreme Court for relief from the Appellate Court's ruling. The California Supreme Court denied plaintiff's petition. Thus the stay in the Allen Matter remains in effect.

In April 1998, SCW was named a defendant in the matter of Daphne Adams, et al. v. Aerojet General, et al. which was filed in Sacramento Superior Court (the "Adams Matter"). The complaint makes claims based on negligence, strict liability, trespass, public nuisance, private nuisance,

negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, violation of California Business and Professions Code section 17200 et seq., intentional infliction of emotional distress, intentional spoilage of evidence, negligent destruction of evidence needed for prospective civil litigation, wrongful death and medical monitoring. Plaintiff's seek damages, including general, punitive and exemplary damages, as well as attorney's fees, costs of suit, injunctive and restitutionary relief, disgorged profits and civil penalties, medical monitoring according to proof and other unspecified relief. SCW filed its Demurrers and Motion to Strike in this matter on June 5, 1998. On August 31, 1998, the judge assigned to the Adams Matter, acting on the Court's own motion, issued a stay of all proceedings in the Adams matter pending the outcome of the CPUC's OII proceeding. The plaintiff's petitioned the Third District Court of Appeal for a Writ of Mandamus to overrule the stay. The Court denied the petition. Plaintiff's then petitioned the California Supreme Court for relief from the Appellate Court's ruling. The California Supreme Court denied plaintiff's petition. Thus the stay in the Adams Matter remains in effect.

In light of the breadth of plaintiff claims in these matters, the lack of factual information regarding plaintiff's claims and injuries, if any, 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. Registrant intends to vigorously defend against these claims.

#### ORDER INSTITUTING INVESTIGATION

In March 1998, the CPUC issued an Order Instituting Investigation (OII) to regulated water utilities in the state of California, including SCW. The purpose of the OII is to determine whether existing standards and policies regarding drinking water quality adequately protect the public health and whether those standards and policies are being uniformly complied with by those water utilities. The OII delineates the constitutional and statutory jurisdiction of the CPUC and the California Department of Health Services (DOHS) in establishing and enforcing adherence to water quality standards. The CPUC's jurisdiction provides for the establishment of rates which permit water utilities to furnish safe water meeting the established water quality standards at prices which are both affordable and allow the utility to earn a reasonable return on its investment. SCW has provided its response to a series of questions dealing with the adequacy of current drinking water standards, compliance by water utilities with such standards, appropriate remedies for failure to comply with safe drinking water standards and whether increased enforcement and additional drinking water standards are necessary.

On June 10, 1999, the CPUC issued an interim order which established that the CPUC has jurisdiction to conduct the investigation regulation in matters related to water quality over those water utilities subject to its authority. A final decision in the OII is anticipated by the end of September 1999. SCW is unable to predict what the final order will find or what, if any, additional hearings or investigations may be required as a result of finding in the OII.

#### 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.

## ITEM 2. CHANGES IN SECURITIES

As of June 30, 1999, earned surplus amounted to \$58,580,000, none of which was restricted as to payment of cash dividends on Registrant's Common Shares by any terms of Registrant's debt instruments.

As of June 30, 1999, authorized but unissued Common Shares includes 89,226 and 71,408 Common Shares reserved for issuance under Registrant's Dividend Reinvestment and Common Share Purchase Program and Investment Incentive Program (401-k), respectively. Common Shares reserved for the 401-k Plan are in relation to the matching contributions by SCW and for investment purposes by participants.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

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

## ITEM 5. OTHER INFORMATION

On July 23, 1999, the Board of Directors of Registrant declared a regular quarterly dividend of \$0.32 per common share. The dividend will be paid September 1, 1999 to shareholders of record as of the close of business on August 9, 1999. In other actions, the Board of Directors declared regular quarterly dividends of \$0.25 per share, \$0.265625 per share and \$0.3125 per share on its 4%, 4-1/4% and 5% Cumulative Preferred Shares, respectively.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None.

## SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized officer and chief financial officer.

AMERICAN STATES WATER COMPANY  
and its subsidiary  
SOUTHERN CALIFORNIA WATER COMPANY

By : /s/ McClellan Harris III

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

By : /s/ Linda J. Matlick

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Linda J. Matlick  
Controller  
Southern California Water Company

Dated: August 11, 1999

UT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEET AND INCOME STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS FILED HEREWITH.

0000092116

SOUTHERN CALIFORNIA WATER COMPANY

1,000

6-MOS	DEC-31-1999	JAN-01-1999	JUN-30-1999	PER-BOOK
	431,868			
	785			
	45,123			
	29,839			
			0	
			507,615	
			22,394	
	74,937			
	58,580			
155,911				
	400			
			1,600	
	160,529			
	6,000			
160,102				
0				
94				
	40			
	897			
			376	
0				
507,615				
	78,248			
	5,690			
	59,453			
	65,143			
	13,105			
			259	
13,364				
	5,981			
			7,383	
	44			
7,339				
	5,733			
	0			
	17,448			
			0.82	
			0.82	