

CALIFORNIA WATER SERVICE GROUP
Form 10-Q
July 31, 2014
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from _____ to _____

Commission file number 1-13883

CALIFORNIA WATER SERVICE GROUP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

77-0448994
(I.R.S. Employer identification No.)

1720 North First Street, San Jose, CA.
(Address of principal executive offices)

95112
(Zip Code)

408-367-8200

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the 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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act) Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding as of July 25, 2014 47,803,849

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PART I FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS

The condensed consolidated financial statements presented in this filing on Form 10-Q have been prepared by management and are unaudited.

CALIFORNIA WATER SERVICE GROUP**CONDENSED CONSOLIDATED BALANCE SHEETS**

Unaudited

(In thousands, except shares and per share data)

| | June 30, 2014 | December 31, 2013 |
|---|------------------|----------------------|
| ASSETS | | |
| Utility plant: | | |
| Utility plant | \$ 2,269,779 | \$ 2,213,328 |
| Less accumulated depreciation and amortization | (730,266) | (697,497) |
| Net utility plant | 1,539,513 | 1,515,831 |
| Current assets: | | |
| Cash and cash equivalents | 29,706 | 27,506 |
| Receivables: | | |
| Customers | 34,278 | 31,468 |
| Regulatory balancing accounts | 26,978 | 30,887 |
| Other | 13,825 | 18,700 |
| Unbilled revenue | 28,055 | 17,034 |
| Materials and supplies at weighted average cost | 5,952 | 5,571 |
| Taxes, prepaid expenses and other assets | 12,014 | 8,324 |
| Total current assets | 150,808 | 139,490 |
| Other assets: | | |
| Regulatory assets | 264,245 | 251,681 |
| Goodwill | 2,615 | 2,615 |
| Other assets | 53,003 | 50,238 |
| Total other assets | 319,863 | 304,534 |
| | \$ 2,010,184 | \$ 1,959,855 |
| CAPITALIZATION AND LIABILITIES | | |
| Capitalization: | | |

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| | | | | |
|---|----|-----------|----|-----------|
| Common stock, \$.01 par value; 68,000,000 shares authorized, 47,804,000 and 47,741,000 outstanding in 2014 and 2013, respectively | \$ | 478 | \$ | 477 |
| Additional paid-in capital | | 329,332 | | 328,364 |
| Retained earnings | | 266,082 | | 269,915 |
| Total common stockholders' equity | | 595,892 | | 598,756 |
| Long-term debt, less current maturities | | 423,334 | | 426,142 |
| Total capitalization | | 1,019,226 | | 1,024,898 |
| Current liabilities: | | | | |
| Current maturities of long-term debt | | 6,550 | | 7,908 |
| Short-term borrowings | | 81,215 | | 46,815 |
| Accounts payable | | 70,906 | | 55,087 |
| Regulatory balancing accounts | | 6,603 | | 1,827 |
| Accrued interest | | 4,240 | | 4,245 |
| Accrued expenses and other liabilities | | 52,560 | | 50,702 |
| Total current liabilities | | 222,074 | | 166,584 |
| Unamortized investment tax credits | | 2,106 | | 2,106 |
| Deferred income taxes, net | | 180,956 | | 183,245 |
| Pension and postretirement benefits other than pensions | | 145,426 | | 145,451 |
| Regulatory and other liabilities | | 90,134 | | 86,455 |
| Advances for construction | | 181,443 | | 183,393 |
| Contributions in aid of construction | | 168,819 | | 167,723 |
| Commitments and contingencies (Note 10) | | | | |
| | \$ | 2,010,184 | \$ | 1,959,855 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents**CALIFORNIA WATER SERVICE GROUP****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

Unaudited

(In thousands, except per share data)

| For the three months ended | June 30, | June 30, |
|---|------------------|-------------------|
| | 2014 | 2013 |
| Operating revenue | \$ 158,416 | \$ 154,555 |
| Operating expenses: | | |
| Operations: | | |
| Water production costs | 61,915 | 59,645 |
| Administrative and general | 23,796 | 23,155 |
| Other operations | 16,004 | 17,030 |
| Maintenance | 4,988 | 4,188 |
| Depreciation and amortization | 16,087 | 14,491 |
| Income taxes | 7,190 | 9,548 |
| Property and other taxes | 5,144 | 5,715 |
| Total operating expenses | 135,124 | 133,772 |
| Net operating income | 23,292 | 20,783 |
| Other income and expenses: | | |
| Non-regulated revenue | 3,474 | 3,215 |
| Non-regulated expenses, net | (2,253) | (3,240) |
| Income tax (expense) benefit on other income and expenses | (481) | 16 |
| Net other income (loss) | 740 | (9) |
| Interest expense: | | |
| Interest expense | 7,077 | 7,803 |
| Less: capitalized interest | (215) | (539) |
| Net interest expense | 6,862 | 7,264 |
| Net Income | \$ 17,170 | \$ 13,510 |
| Earnings per share | | |
| Basic | \$ 0.36 | \$ 0.28 |
| Diluted | 0.36 | 0.28 |
| Weighted average shares outstanding | | |
| Basic | 47,804 | 47,729 |
| Diluted | 47,837 | 47,760 |
| Dividends declared per share of common stock | \$ 0.1625 | \$ 0.16000 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents**CALIFORNIA WATER SERVICE GROUP****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

Unaudited

(In thousands, except per share data)

| For the six months ended | June 30, | June 30, |
|---|------------------|-------------------|
| | 2014 | 2013 |
| Operating revenue | \$ 268,931 | \$ 265,999 |
| Operating expenses: | | |
| Operations: | | |
| Water production costs | 107,317 | 101,342 |
| Administrative and general | 48,937 | 48,436 |
| Other operations | 32,380 | 32,675 |
| Maintenance | 9,993 | 8,321 |
| Depreciation and amortization | 32,140 | 29,120 |
| Income taxes | 3,351 | 8,402 |
| Property and other taxes | 10,369 | 11,150 |
| Total operating expenses | 244,487 | 239,446 |
| Net operating income | 24,444 | 26,553 |
| Other income and expenses: | | |
| Non-regulated revenue | 7,754 | 6,737 |
| Non-regulated expenses, net | (6,372) | (5,657) |
| Income tax (expense) on other income and expenses | (560) | (435) |
| Net other income | 822 | 645 |
| Interest expense: | | |
| Interest expense | 14,152 | 15,840 |
| Less: capitalized interest | (580) | (1,079) |
| Net interest expense | 13,572 | 14,761 |
| Net Income | \$ 11,694 | \$ 12,437 |
| Earnings per share | | |
| Basic | \$ 0.24 | \$ 0.28 |
| Diluted | 0.24 | 0.28 |
| Weighted average shares outstanding | | |
| Basic | 47,780 | 45,004 |
| Diluted | 47,818 | 45,034 |
| Dividends declared per share of common stock | \$ 0.3250 | \$ 0.32000 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents**CALIFORNIA WATER SERVICE GROUP****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Unaudited

(In thousands)

| | June 30, 2014 | June 30, 2013 |
|---|------------------|------------------|
| For the six months ended: | | |
| Operating activities | | |
| Net income | \$ 11,694 | \$ 12,437 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 33,162 | 30,088 |
| Changes in value of life insurance contracts | (721) | (504) |
| Changes in operating assets and liabilities: | | |
| Receivables | (17,161) | (19,686) |
| Accounts payable | 12,802 | 8,787 |
| Other current assets | (4,384) | (3,889) |
| Other current liabilities | (16,336) | 8,193 |
| Other changes in noncurrent assets and liabilities | 24,128 | 1,350 |
| Net cash provided by operating activities | 43,184 | 36,776 |
| Investing activities: | | |
| Utility plant expenditures | (57,047) | (66,190) |
| Purchase of life insurance contracts | (1,707) | (1,608) |
| Changes in restricted cash | 313 | 1,079 |
| Net cash used in investing activities | (58,441) | (66,719) |
| Financing activities: | | |
| Short-term borrowings | 39,400 | 32,615 |
| Repayment of short-term borrowings | (5,000) | (93,275) |
| Proceeds from long-term debt | | 48 |
| Repayment of long-term debt | (4,163) | (2,553) |
| Advances and contributions in aid of construction | 5,950 | 5,006 |
| Refunds of advances for construction | (3,203) | (3,512) |
| Issuance of common stock | | 110,688 |
| Common stock issuance costs | | (4,853) |
| Dividends paid | (15,527) | (14,343) |
| Net cash provided by financing activities | 17,457 | 29,821 |
| Change in cash and cash equivalents | 2,200 | (122) |
| Cash and cash equivalents at beginning of period | 27,506 | 38,790 |
| Cash and cash equivalents at end of period | \$ 29,706 | \$ 38,668 |
| Supplemental information | | |
| Cash paid for interest (net of amounts capitalized) | \$ 13,032 | \$ 14,383 |
| Cash paid for income taxes | | |
| Income tax refunds | (6,000) | |
| Supplemental disclosure of non-cash activities: | | |
| Accrued payables for investments in utility plant | \$ 12,244 | \$ 9,492 |
| Utility plant contribution by developers | 4,319 | 6,809 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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CALIFORNIA WATER SERVICE GROUP

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2014

(Amounts in thousands, except share and per share amounts)

Note 1. Organization and Operations and Basis of Presentation

California Water Service Group (the Company) is a holding company that provides water utility and other related services in California, Washington, New Mexico and Hawaii through its wholly-owned subsidiaries. California Water Service Company (Cal Water), Washington Water Service Company (Washington Water), New Mexico Water Service Company (New Mexico Water), and Hawaii Water Service Company, Inc. (Hawaii Water) provide regulated utility services under the rules and regulations of their respective state's regulatory commissions (jointly referred to herein as the Commissions). CWS Utility Services and HWS Utility Services LLC provide non-regulated water utility and utility-related services.

The Company operates in one reportable segment, providing water and related utility services.

Basis of Presentation

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC) and therefore do not contain all of the information and footnotes required by GAAP and the SEC for annual financial statements. The condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2013, included in its annual report on Form 10-K as filed with the SEC on February 27, 2014.

The preparation of the Company's condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses for the periods presented. These include, but are not limited to, estimates and assumptions used in determining the Company's regulatory asset and liability balances based upon probability assessments of regulatory recovery, revenues earned but not yet billed, asset retirement obligations, allowance for doubtful accounts, pension and other employee benefit plan liabilities, and income tax-related assets and liabilities. Actual results could differ from these estimates.

In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals that are necessary to provide a fair presentation of the results for the periods covered. The results for interim periods are not necessarily indicative of the results for any future period.

Due to the seasonal nature of the water business, the results for interim periods are not indicative of the results for a 12-month period. Revenue and income are generally higher in the warm, dry summer months when water usage and sales are greater. Revenue and income are generally lower in the winter months when cooler temperatures and rainfall curtail water usage and sales.

Note 2. Summary of Significant Accounting Policies

Revenue

Revenue generally includes monthly cycle customer billings for regulated water and wastewater services at rates authorized by regulatory commissions (plus an estimate for water used between the customer's last meter reading and the end of the accounting period) and billings to certain non-regulated customers at rates authorized by contract with government agencies.

The Company's regulated water and waste water revenue requirements are authorized by the Commissions in the states in which it operates. The revenue requirements are intended to provide the Company an opportunity to recover its operating costs and earn a reasonable return on investments.

For metered customers, Cal Water recognizes revenue from rates which are designed and authorized by the California Public Utilities Commission (CPUC). Under the Water Revenue Adjustment Mechanism (WRAM), Cal Water records the adopted level of volumetric revenues, which would include recovery of cost of service and a return on investments, as established by the CPUC for metered accounts (adopted volumetric revenues). In addition to volumetric-based revenues, the revenue requirements approved by the CPUC include service charges, flat rate charges, and other items not subject to the WRAM. The adopted volumetric revenue considers the seasonality of consumption of water based upon historical averages. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts is recorded as a component of revenue with an offsetting entry to a regulatory asset or liability balancing account (tracked individually for each Cal Water district) subject to certain criteria

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under the accounting for regulated operations being met. The variance amount may be positive or negative and represents amounts that will be billed or refunded to customers in the future.

Cost-recovery rates are designed to permit full recovery of certain costs. Cost-recovery rates such as the Modified Cost Balancing Account (MCBA) provides for recovery of adopted expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. In addition, cost-recovery rates include recovery of cost related to water conservation programs and certain other operation expenses adopted by the CPUC. There is no markup for return or profit for cost-recovery expenses and are generally recognized when expenses are incurred. Variances (which include the effects of changes in both rate and volume for the MCBA) between adopted and actual costs are recorded as a component of revenue, as the amount of such variances will be recovered from or refunded to Cal Water customers at a later date. The variance between adopted costs and actual costs for metered accounts is recorded as a component of revenue with an offsetting entry to a regulatory asset or liability balancing account (transferred individually for each Cal Water District) subject to certain criteria under the accounting for regulated operations being met.

The balances in the WRAM and MCBA assets and liabilities accounts will fluctuate on a monthly basis depending upon the variance between adopted and actual results. The recovery or refund of the WRAM is netted against the MCBA over- or under-recovery for the corresponding district and is interest bearing at the current 90 day commercial paper rate. At the end of any calendar year, Cal Water files with the CPUC to refund or collect the balance in the accounts. Most undercollected net WRAM and MCBA receivable balances are collected over 12 or 18 months. Cal Water defers net WRAM and MCBA operating revenues and associated costs whenever the net receivable balances are estimated to be collected more than 24 months after the respective reporting periods in which it was recognized. The deferred net WRAM and MCBA revenues and associated costs were determined using forecasts of rate payer consumption trends in future reporting periods and the timing of when the CPUC will authorize Cal Water's filings to recover the undercollected balances. Deferred net WRAM and MCBA revenues and associated costs will be recognized as revenues and costs in future periods when collection is within twenty-four months of the respective reporting period.

The net WRAM and MCBA balances included in regulatory balancing account, assets, and liabilities were:

| | June 30, 2014 | December 31, 2013 |
|---------------------------|--------------------------|------------------------------|
| Net short-term receivable | \$ 26,978 | \$ 30,887 |
| Net long-term receivable | 26,053 | 15,423 |
| Total receivable | \$ 53,031 | \$ 46,310 |
| Net short-term payable | \$ 5 | \$ 1,032 |
| Net long-term payable | 439 | 906 |
| Total payable | \$ 444 | \$ 1,938 |

Flat rate customers are billed in advance at the beginning of the service period. The revenue is prorated so that the portion of revenue applicable to the current period is included in that period's revenue, with the balance recorded as unearned revenue on the balance sheets and recognized as revenue when earned in the subsequent accounting period. The unearned revenue liability was \$1.4 million as of June 30, 2014 and \$1.5 million as of December 31, 2013. This liability is included in accrued expenses and other liabilities on the condensed consolidated balance sheets.

Cash and Cash Equivalents

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Cash equivalents include highly liquid investments with maturities of three months or less. Cash and cash equivalents was \$29.7 million and \$27.5 million as of June 30, 2014 and December 31, 2013, respectively. Restricted cash was presented on the condensed consolidated balance sheets as taxes, prepaid expenses and other assets and was \$0.9 million and \$1.2 million as of June 30, 2014 and December 31, 2013, respectively.

Accounting Standards Update

On May 28, 2014 the Financial Accounting Standards Board issued an accounting standards update (ASU) 2014-09, *Revenue from Contracts with Customers*. This update creates a single, principles based framework for revenue recognition and is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when goods or services are transferred to customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the impact of adopting the new revenue standard on its consolidated financial statements.

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Note 3. Stock-based Compensation

Equity Incentive Plan

The Company's equity incentive plan was originally approved by stockholders on April 27, 2005 and again on May 20, 2014. Under the equity incentive plan, the Company is authorized to issue up to 2,000,000 shares of common stock awards as defined in the Plan to employees and directors.

The Restricted Stock Awards (RSAs) granted in 2014 and 2013 to employees vest over 36 months. Director RSAs generally vest at the end of 12 months. During the first six months of 2014, the RSAs granted were valued at \$23.61 per share, based upon the fair market value of the Company's common stock on the date of grant.

The table below reflects RSAs granted under the Equity Incentive Plan for the six months ended June 30, 2014:

| | |
|--|---------|
| RSA shares balance as of December 31, 2013 | 439,314 |
| Additions for new grants | 58,378 |
| Reductions for cancelled grants | (5,376) |
| RSA shares balance as of June 30, 2014 | 492,316 |

During the six months ended June 30, 2014 and 2013, the Company also granted performance-based Restricted Stock Unit Awards (RSUs) of 37,143 shares and 50,267 shares of common stock, respectively, to officers. Each award reflects a target number of shares that may be issued to the award recipient. The 2014 and 2013 awards may be earned upon the completion of the three-year performance period ending on March 4, 2017 and March 3, 2016, respectively. Whether RSUs are earned at the end of the performance period will be determined based on the achievement of certain performance objectives set by the Board of Director Compensation Committee in connection with the issuance of the RSUs. The performance objectives are based on the Company's business plan covering the performance period. The performance objectives include achieving the budgeted return on equity, budgeted investment in utility plant, customer service standards, water quality standards, and/or safety standards. Depending on the results achieved during the three-year performance period, the actual number of shares that a grant recipient receives at the end of the performance period may range from 0% to 200% of the target shares granted, provided that the grantee is continuously employed by the Company through the vesting date. If, prior to the vesting date, employment is terminated by reason of death, disability or normal retirement, then a pro rata portion of this award will vest. RSUs are not included in diluted shares for financial reporting until earned. The 2014 and 2013 RSUs are recognized as expense ratably over the three year performance period using a fair market value of \$23.61 per share and \$20.62 per share, respectively, and an estimate of RSUs earned during the performance period.

The Company has recorded compensation costs for the RSAs and RSUs in operating expense in the amount of \$1.0 million and \$0.8 million for the six months ended June 30, 2014 and June 30, 2013, respectively.

Note 4. Equity

The Company's changes in equity for the six months ended June 30, 2014 were as follows:

| | Total Stockholders | Equity |
|----------------------------------|--------------------|----------|
| Balance at December 31, 2013 | \$ | 598,756 |
| Common stock issued | | 1 |
| Share-based compensation expense | | 968 |
| Common stock dividends paid | | (15,527) |
| Net income | | 11,694 |
| Balance at June 30, 2014 | \$ | 595,892 |

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Note 5. Net Income Per Share Calculations

The computations of basic and diluted net income per weighted average common shares are noted below. Basic net income per share is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding during the period. RSAs are included in the weighted average common shares outstanding because the shares have all the same voting and dividend rights as issued and unrestricted common stock. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts were exercised or converted into common stock.

A total of 212,920 shares and 333,856 shares of Stock Appreciation Rights were vested and outstanding and all were dilutive as of June 30, 2014 and June 30, 2013, respectively, as shown in the table below.

| | Three Months Ended June 30 | |
|---|----------------------------|-----------|
| | 2014 | 2013 |
| Net Income available to common stockholders | \$ 17,170 | \$ 13,510 |
| Weighted average common shares outstanding, basic (in thousands) | 47,804 | 47,729 |
| Dilutive stock appreciation rights (treasury method) (in thousands) | 33 | 31 |
| Weighted average common shares outstanding, dilutive (in thousands) | 47,837 | 47,760 |
| Net Income per share - basic | \$ 0.36 | \$ 0.28 |
| Net Income per share - diluted | \$ 0.36 | \$ 0.28 |

| | Six Months Ended June 30 | |
|---|--------------------------|-----------|
| | 2014 | 2013 |
| Net Income available to common stockholders | \$ 11,694 | \$ 12,437 |
| Weighted average common shares outstanding, basic (in thousands) | 47,780 | 45,004 |
| Dilutive stock appreciation rights (treasury method) (in thousands) | 38 | 30 |
| Weighted average common shares outstanding, dilutive (in thousands) | 47,818 | 45,034 |
| Net Income per share - basic | \$ 0.24 | \$ 0.28 |
| Net Income per share - diluted | \$ 0.24 | \$ 0.28 |

Note 6. Pension Plan and Other Postretirement Benefits

The Company provides a qualified, defined-benefit, non-contributory pension plan for substantially all employees. The Company makes annual contributions to fund the amounts accrued for the qualified pension plan. The Company also maintains an unfunded, non-qualified, supplemental executive retirement plan. The costs of the plans are charged to expense or are capitalized in utility plant as appropriate.

The Company offers medical, dental, vision, and life insurance benefits for retirees and their spouses and dependents. Participants are required to pay a premium, which offsets a portion of the cost.

Cash payments by the Company related to pension plans and other postretirement benefit plans were \$16.4 million for the six months ended June 30, 2014 and were \$17.8 million during the six months ended June 30, 2013. The 2014 estimated cash contribution to the pension plans is

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\$26.8 million and to the other postretirement benefit plans is \$9.6 million.

The following table lists components of net periodic benefit costs for the pension plans and other postretirement benefits. The data listed under pension plan includes the qualified pension plan and the non-qualified supplemental executive retirement plan. The data listed under other benefits is for all other postretirement benefits.

| | Three Months Ended June 30 | | | | | |
|------------------------------------|----------------------------|----------|----------------|----------|------|------|
| | Pension Plan | | Other Benefits | | | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Service cost | \$ 4,217 | \$ 4,658 | \$ 1,620 | \$ 1,695 | | |
| Interest cost | 4,726 | 4,063 | 1,337 | 1,109 | | |
| Expected return on plan assets | (4,179) | (3,565) | (754) | (598) | | |
| Recognized net initial APBO (1) | N/A | N/A | | 2 | | |
| Amortization of prior service cost | 1,510 | 1,541 | 11 | 20 | | |
| Recognized net actuarial loss | 1,003 | 2,224 | 775 | 916 | | |
| Net periodic benefit cost | \$ 7,277 | \$ 8,921 | \$ 2,989 | \$ 3,144 | | |

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| | Six Months Ended June 30 | | | | | |
|------------------------------------|--------------------------|-----------|----------------|----------|--|---|
| | Pension Plan | | Other Benefits | | | |
| | 2014 | 2013 | 2014 | 2013 | | |
| Service cost | \$ 8,434 | \$ 9,316 | \$ 3,239 | \$ 3,390 | | |
| Interest cost | 9,453 | 8,126 | 2,674 | 2,218 | | |
| Expected return on plan assets | (8,358) | (7,130) | (1,507) | (1,196) | | |
| Recognized net initial APBO (1) | N/A | N/A | | | | 4 |
| Amortization of prior service cost | 3,020 | 3,082 | 22 | 40 | | |
| Recognized net actuarial loss | 2,006 | 4,448 | 1,550 | 1,832 | | |
| Net periodic benefit cost | \$ 14,555 | \$ 17,842 | \$ 5,978 | \$ 6,288 | | |

(1) APBO - Accumulated postretirement benefit obligation

Note 7. Short-term and Long-term Borrowings

On June 29, 2011, the Company and Cal Water entered into Syndicated Credit Agreements, which provide for unsecured revolving credit facilities of up to an initial aggregate amount of \$400 million. The Syndicated Credit Facilities amend, expand, and replace the Company's and its subsidiaries' existing credit facilities originally entered into on October 27, 2009. The new credit facilities extended the terms until June 29, 2016, increased the Company's and Cal Water's unsecured revolving lines of credit, and lowered interest rates and fees. The Company and subsidiaries that it designates may borrow up to \$100 million under the Company's revolving credit facility. Cal Water may borrow up to \$300 million under its revolving credit facility; however, all borrowings need to be repaid within 12-months unless otherwise authorized by the CPUC. The proceeds from the revolving credit facilities may be used for working capital purposes, including the short-term financing of capital projects. The base loan rate may vary from LIBOR plus 72.5 basis points to LIBOR plus 95 basis points, depending on the Company's total capitalization ratio. Likewise, the unused commitment fee may vary from 8 basis points to 12.5 basis points based on the same ratio.

Both short-term unsecured credit agreements contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, these unsecured credit agreements contain financial covenants governing the Company and its subsidiaries' consolidated total capitalization ratio and interest coverage ratio.

As of June 30, 2014 and December 31, 2013, the outstanding borrowings on the Company lines of credit were \$16.2 million and \$16.8 million, respectively, and were \$65.0 million and \$30.0 million as of June 30, 2014 and December 31, 2013 on the Cal Water lines of credit, respectively. For the six months ended June 30, 2014, the average borrowing rate was 1.20% compared to 2.30% for the same period last year.

Note 8. Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Measurement of the deferred tax assets and liabilities is at enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

The Company anticipates that future rate actions by the regulatory commissions will reflect revenue requirements for the tax effects of temporary differences recognized, which have previously been passed through to customers. The regulatory commissions have granted the Company rate increases to reflect the normalization of the tax benefits of the federal accelerated methods and available Investment Tax Credits (ITCs) for all assets placed in service after 1980. ITCs are deferred and amortized over the lives of the related properties for book purposes.

During 2012, the Company filed an application for a change in tax accounting method with the IRS to implement tangible property regulations specifically in regards to repairs and maintenance deductions. On September 13, 2013, the U.S. Department of the Treasury and Internal Revenue Service (IRS) issued the final and re-proposed tangible property regulations for repairs and maintenance deductions with an effective date of January 1, 2014. These tax regulations allowed the Company to deduct a

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significant amount of linear asset costs previously capitalized for book and tax purposes. The Company intends to file a tax accounting method change with its 2013 tax return for the repair and maintenance of linear assets within the guidance of the tangible property regulations. During the second quarter of 2014 the Company recorded additional repairs deductions of \$52.3 million for federal and \$64.0 million for state. The Company's total federal net operating loss (NOL) was \$67.1 million and state net operating loss NOL was \$106.0 million as of December 31, 2013. The NOL carry-forward amounts are more likely than not to be recovered and therefore require no valuation allowance. The NOL carry-forward does not begin to expire until 2033.

As of June 30, 2014 the Company had unrecognized tax benefits of approximately \$7.2 million. Included in the balance of unrecognized tax benefits is approximately \$1.6 million of tax benefits that, if recognized, would result in an adjustment to the Company's effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly within the next twelve months.

The State of Hawaii Department of Taxation is presently auditing the Company's 2011 and 2012 Hawaii state income tax returns. The State of California Board of Equalization is presently auditing the Company's 2010, 2011, and 2012 sales and use tax filings. It is uncertain when the state audits will be completed. The Company believes that the final resolution of the state audits will not have a material impact on its financial condition or results of operations.

Note 9. Regulatory Assets and Liabilities

During 2011, the CPUC issued a decision regarding the \$34.2 million of litigation proceeds previously received by Cal Water during 2008 which is being used to replace infrastructure damaged by the gasoline additive Methyl tert-butyl ether (MTBE). The decision requires use of these proceeds for costs incurred as a result of MTBE contamination with any related benefits to be provided to Cal Water customers. Such usage includes transfer of the amount to contributions in aid of construction (CIAC) for remediation or replacement project costs once complete. Usage of the proceeds is reported to the CPUC through an Advice Letter or General Rate Case filing. As of December 31, 2013, \$28.3 million of the proceeds was recorded as CIAC and \$0.9 million was spent on MTBE legal services. The remaining balance of \$5.0 million is recorded as other long-term liabilities.

During 2011, Cal Water added balancing accounts for its pension plans and conservation program. Both balancing account effective dates were January 1, 2011. The pension plan's balancing account is a two-way balancing account that tracks the differences between actual expenses and adopted rate recovery which will result in either a regulatory asset or liability. The conservation program is a one-way balancing account that tracks the differences between actual expenses and adopted rate recovery which may result in a regulatory liability if actual conservation expenses are less than adopted over the three year period ending December 31, 2013. As of June 30, 2014 and December 31, 2013, the pension balancing account was a regulatory asset of \$1.0 million and \$3.0 million, respectively. The conservation balancing account was a regulatory liability of \$6.8 million as of June 30, 2014 and \$6.3 million as of December 31, 2013.

Note 10. Commitments and Contingencies

Commitments

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The Company has significant commitments to lease certain office spaces and water systems and to purchase water from water wholesalers. These commitments are described in Form 10-K for the year ended December 31, 2013. As of June 30, 2014, there were no significant changes from December 31, 2013.

Contingencies

Groundwater Contamination

The Company has undertaken litigation against third parties to recover past and future costs related to ground water contamination in the Company's service areas. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. The Commission's general policy requires all proceeds from contamination litigation to be used first to pay transactional expenses, then to make ratepayers whole for water treatment costs to comply with the Commission's water quality standards. The Commission allows for a risk-based consideration of contamination proceeds which exceed the costs of the remediation described above and may result in some sharing of proceeds with the shareholder, determined on a case by case basis. The Commission has authorized various memorandum accounts that allow the Company to track significant litigation costs to request recovery of these costs in future filings and uses of proceeds to comply with Commission's general policy.

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Other Legal Matters

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. The status of each significant matter is reviewed and assessed for potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, a liability is accrued for the estimated loss in accordance with the accounting standards for contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe when taking into account existing reserves the ultimate resolution of these matters will materially affect the Company's financial position, results of operations, or cash flows. The Company recognized a liability of \$2.5 million and \$1.3 million for all known legal matters as of June 30, 2014 and December 31, 2013, respectively. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. Any settlement in excess of the cost to litigate is accounted for on a case by case basis, dependant on the nature of the settlement.

Note 11. Fair Value of Financial Assets and Liabilities

The accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires certain disclosures about assets and liabilities measured at fair value. A hierarchal framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance. The three levels in the hierarchy are as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices.

Level 2 - Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reporting date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, or priced with discounted cash flow or option pricing models using highly observable inputs.

Level 3 - Significant inputs to pricing have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those valued with models requiring significant management judgment or estimation.

Specific valuation methods include the following:

Cash equivalents, accounts receivable and accounts payable carrying amounts approximated the fair value because of the short-term maturity of the instruments.

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Long-term debt fair values were estimated using the published quoted market price, if available, or the discounted cash flow analysis, based on the current rates available using a risk-free rate (a U.S. Treasury securities yield curve) plus a risk premium of 1.19%.

Advances for construction fair values were estimated using broker quotes from companies that frequently purchase these investments.

| | June 30, 2014 | | | | | Total |
|---|----------------------|----------------|-------------------|-----------|----------------|-------------------|
| | Cost | Level 1 | Fair Value | | Level 3 | |
| | | | Level 2 | | | |
| Long -term debt, including current maturities | \$ 429,884 | | \$ 526,155 | | | \$ 526,155 |
| Advances for construction | 181,443 | | 74,365 | | | 74,365 |
| Total | \$ 611,327 | \$ | \$ 600,520 | \$ | \$ | \$ 600,520 |

| | December 31, 2013 | | | | | Total |
|---|--------------------------|----------------|-------------------|-----------|----------------|-------------------|
| | Cost | Level 1 | Fair Value | | Level 3 | |
| | | | Level 2 | | | |
| Long -term debt, including current maturities | \$ 434,050 | \$ | \$ 511,146 | \$ | \$ | \$ 511,146 |
| Advances for construction | 183,393 | | 73,389 | | | 73,389 |
| Total | \$ 617,443 | | \$ 584,535 | \$ | \$ | \$ 584,535 |

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Note 12. Subsequent Event

On July 21, 2014, the California Public Utilities Commission (CPUC) issued a proposed decision authorizing rate increases in all regulated operating districts in California effective January 1, 2014. The proposed decision authorizes an increase of \$45.3 million or 9.2% in rates for 2014, \$10.1 million or 1.9% in rates for 2015 and \$10.0 million or 1.8% in rates for 2016 which includes completion of the Company's authorized capital projects. The authorized increase in rates for 2015 and 2016 is subject to the CPUC's escalation procedures. The proposed decision authorizes Cal Water to invest \$448.9 million in districts throughout California over the three-year period from January 1, 2013 through December 31, 2015 in order to provide a safe and reliable water supply to its customers. Included in the \$448.9 million in water system infrastructure improvements is \$125.8 million that would be recovered through the CPUC's advice letter procedure upon completion of qualified projects.

Note 13. Condensed Consolidating Financial Statements

On April 17, 2009, Cal Water issued \$100 million aggregate principal amount of 5.875% First Mortgage Bonds due 2019, and on November 17, 2010, Cal Water issued \$100 million aggregate principal amount of 5.500% First Mortgage Bonds due 2040, all of which are fully and unconditionally guaranteed by the Company. As a result of these guarantee arrangements, we are required to present the following condensed consolidating financial information.

The following tables present the condensed consolidating balance sheets as of June 30, 2014 and December 31, 2013, the condensed consolidating statements of income for the three months ended June 30, 2014 and 2013, the condensed consolidating statements of income for the six months ended June 30, 2014 and 2013 and the condensed consolidating statements of cash flows for the six months ended June, 2014 and 2013 of (i) California Water Service Group, the guarantor of the first mortgage bonds and the parent company; (ii) California Water Service Company, the issuer of the first mortgage bonds and a 100% owned consolidated subsidiary of California Water Service Group; and (iii) the other 100% owned non-guarantor consolidated subsidiaries of California Water Service Group.

Table of Contents**CALIFORNIA WATER SERVICE GROUP****CONDENSED CONSOLIDATING BALANCE SHEET**

As of June 30, 2014

(In thousands)

| | Parent Company | Cal Water | All Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------------|--------------|---------------------------|------------------------------|--------------|
| ASSETS | | | | | |
| Utility plant: | | | | | |
| Utility plant | \$ 1,318 | \$ 2,087,926 | \$ 187,732 | \$ (7,197) | \$ 2,269,779 |
| Less accumulated depreciation and amortization | (263) | (691,815) | (39,857) | 1,669 | (730,266) |
| Net utility plant | 1,055 | 1,396,111 | 147,875 | (5,528) | 1,539,513 |
| Current assets: | | | | | |
| Cash and cash equivalents | 731 | 27,646 | 1,329 | | 29,706 |
| Receivables and unbilled revenue | | 95,053 | 8,933 | (850) | 103,136 |
| Receivables from affiliates | 19,848 | 4,663 | 0 | (24,511) | |
| Other current assets | 213 | 16,614 | 1,139 | | 17,966 |
| Total current assets | 20,792 | 143,976 | 11,401 | (25,361) | 150,808 |
| Other assets: | | | | | |
| Regulatory assets | | 261,408 | 2,837 | | 264,245 |
| Investments in affiliates | 564,224 | | | (564,224) | |
| Long-term affiliate notes receivable | 25,766 | | | (25,766) | |
| Other assets | 830 | 47,866 | 7,127 | (205) | 55,618 |
| Total other assets | 590,820 | 309,274 | 9,964 | (590,195) | 319,863 |
| | \$ 612,667 | \$ 1,849,361 | \$ 169,240 | \$ (621,084) | \$ 2,010,184 |
| CAPITALIZATION AND LIABILITIES | | | | | |
| Capitalization: | | | | | |
| Common stockholders' equity | \$ 595,892 | \$ 497,991 | \$ 71,630 | \$ (569,621) | \$ 595,892 |
| Affiliate long-term debt | | | 25,766 | (25,766) | |
| Long-term debt, less current maturities | | 422,229 | 1,105 | | 423,334 |
| Total capitalization | 595,892 | 920,220 | 98,501 | (595,387) | 1,019,226 |
| Current liabilities: | | | | | |
| Current maturities of long-term debt | | 6,155 | 395 | | 6,550 |
| Short-term borrowings | 16,215 | 65,000 | | | 81,215 |
| Payables to affiliates | | 1,087 | 23,424 | (24,511) | |
| Accounts payable | | 67,773 | 3,133 | | 70,906 |
| Accrued expenses and other liabilities | 871 | 60,343 | 3,007 | (818) | 63,403 |
| Total current liabilities | 17,086 | 200,358 | 29,959 | (25,329) | 222,074 |
| Unamortized investment tax credits | | 2,106 | | | 2,106 |
| Deferred income taxes, net | (311) | 177,790 | 3,845 | (368) | 180,956 |
| Pension and postretirement benefits other than pensions | | | | | |
| | | 145,426 | | | 145,426 |
| Regulatory and other liabilities | | 81,221 | 8,913 | | 90,134 |
| Advances for construction | | 180,879 | 564 | | 181,443 |
| Contributions in aid of construction | | 141,361 | 27,458 | | 168,819 |
| | \$ 612,667 | \$ 1,849,361 | \$ 169,240 | \$ (621,084) | \$ 2,010,184 |

Table of Contents**CALIFORNIA WATER SERVICE GROUP****CONDENSED CONSOLIDATING BALANCE SHEET**

As of December 31, 2013

(In thousands)

| | Parent Company | Cal Water | All Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------------|--------------|---------------------------|------------------------------|--------------|
| ASSETS | | | | | |
| Utility plant: | | | | | |
| Utility plant | \$ 1,318 | \$ 2,034,935 | \$ 184,272 | \$ (7,197) | \$ 2,213,328 |
| Less accumulated depreciation and amortization | (164) | (661,780) | (37,168) | 1,615 | (697,497) |
| Net utility plant | 1,154 | 1,373,155 | 147,104 | (5,582) | 1,515,831 |
| Current assets: | | | | | |
| Cash and cash equivalents | 5,280 | 20,790 | 1,436 | | 27,506 |
| Receivables and unbilled revenue | (756) | 90,008 | 8,931 | (94) | 98,089 |
| Receivables from affiliates | 16,747 | 5,755 | | (22,502) | |
| Other current assets | | 13,011 | 884 | | 13,895 |
| Total current assets | 21,271 | 129,564 | 11,251 | (22,596) | 139,490 |
| Other assets: | | | | | |
| Regulatory assets | | 248,938 | 2,743 | | 251,681 |
| Investments in affiliates | 565,347 | | | (565,347) | |
| Long-term affiliate notes receivable | 26,255 | | | (26,255) | |
| Other assets | 1,120 | 44,827 | 7,111 | (205) | 52,853 |
| Total other assets | 592,722 | 293,765 | 9,854 | (591,807) | 304,534 |
| | \$ 615,147 | \$ 1,796,484 | \$ 168,209 | \$ (619,985) | \$ 1,959,855 |
| CAPITALIZATION AND LIABILITIES | | | | | |
| Capitalization: | | | | | |
| Common stockholders equity | \$ 598,756 | \$ 500,290 | \$ 70,548 | \$ (570,838) | \$ 598,756 |
| Affiliate long-term debt | | | 26,255 | (26,255) | |
| Long-term debt, less current maturities | | 424,854 | 1,288 | | 426,142 |
| Total capitalization | 598,756 | 925,144 | 98,091 | (597,093) | 1,024,898 |
| Current liabilities: | | | | | |
| Current maturities of long-term debt | | 6,137 | 1,771 | | 7,908 |
| Short-term borrowings | 16,815 | 30,000 | | | 46,815 |
| Payables to affiliates | 48 | | 22,454 | (22,502) | |
| Accounts payable | | 51,764 | 3,323 | | 55,087 |
| Accrued expenses and other liabilities | 107 | 55,346 | 1,321 | | 56,774 |
| Total current liabilities | 16,970 | 143,247 | 28,869 | (22,502) | 166,584 |
| Unamortized investment tax credits | | 2,106 | | | 2,106 |
| Deferred income taxes, net | (579) | 179,870 | 4,344 | (390) | 183,245 |
| Pension and postretirement benefits other than pensions | | 145,451 | | | 145,451 |
| Regulatory and other liabilities | | 77,627 | 8,828 | | 86,455 |
| Advances for construction | | 182,776 | 617 | | 183,393 |
| Contributions in aid of construction | | 140,263 | 27,460 | | 167,723 |
| | \$ 615,147 | \$ 1,796,484 | \$ 168,209 | \$ (619,985) | \$ 1,959,855 |

Table of Contents**CALIFORNIA WATER SERVICE GROUP****CONDENSED CONSOLIDATING STATEMENT OF INCOME**

For the three months ended June 30, 2014

(In thousands)

| | Parent Company | Cal Water | All Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------------|------------------|---------------------------|------------------------------|------------------|
| Operating revenue | \$ | \$ 150,340 | \$ 8,076 | \$ | \$ 158,416 |
| Operating expenses: | | | | | |
| Operations: | | | | | |
| Water production costs | | 59,514 | 2,401 | | 61,915 |
| Administrative and general | 33 | 21,090 | 2,673 | | 23,796 |
| Other | | 14,363 | 1,767 | (126) | 16,004 |
| Maintenance | | 4,833 | 155 | | 4,988 |
| Depreciation and amortization | 57 | 14,961 | 1,095 | (26) | 16,087 |
| Income tax (benefit) expense | (55) | 7,429 | (421) | 237 | 7,190 |
| Taxes other than income taxes | | 4,493 | 651 | | 5,144 |
| Total operating expenses | 35 | 126,683 | 8,321 | 85 | 135,124 |
| Net operating (loss) income | (35) | 23,657 | (245) | (85) | 23,292 |
| Other Income and Expenses: | | | | | |
| Non-regulated revenue | 450 | 3,208 | 370 | (554) | 3,474 |
| Non-regulated expenses, net | | (2,109) | (144) | | (2,253) |
| Income tax (expense) on other income and expense | (184) | (447) | (76) | 226 | (481) |
| Net other income | 266 | 652 | 150 | (328) | 740 |
| Interest: | | | | | |
| Interest expense | 46 | 6,984 | 476 | (429) | 7,077 |
| Less: capitalized interest | | (197) | (18) | | (215) |
| Net interest expense | 46 | 6,787 | 458 | (429) | 6,862 |
| Equity earnings of subsidiaries | 16,985 | | | (16,985) | |
| Net income (loss) | \$ 17,170 | \$ 17,522 | \$ (553) | \$ (16,969) | \$ 17,170 |

Table of Contents**CALIFORNIA WATER SERVICE GROUP****CONDENSED CONSOLIDATING STATEMENT OF INCOME**

For the three months ended June 30, 2013

(In thousands)

| | Parent Company | Cal Water | All Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------------|------------|---------------------------|------------------------------|--------------|
| Operating revenue | \$ | \$ 146,730 | \$ 7,825 | \$ | \$ 154,555 |
| Operating expenses: | | | | | |
| Operations: | | | | | |
| Water production costs | | 57,102 | 2,543 | | 59,645 |
| Administrative and general | | 20,460 | 2,695 | | 23,155 |
| Other | | 15,418 | 1,737 | (125) | 17,030 |
| Maintenance | | 4,029 | 159 | | 4,188 |
| Depreciation and amortization | 28 | 13,697 | 794 | (28) | 14,491 |
| Income tax (benefit) expense | (93) | 9,813 | (542) | 370 | 9,548 |
| Taxes other than income taxes | | 5,015 | 700 | | 5,715 |
| Total operating (income) expenses | (65) | 125,534 | 8,086 | 217 | 133,772 |
| Net operating income (loss) | 65 | 21,196 | (261) | (217) | 20,783 |
| Other Income and Expenses: | | | | | |
| Non-regulated revenue | 597 | 3,005 | 408 | (795) | 3,215 |
| Non-regulated expenses, net | | (2,873) | (367) | | (3,240) |
| Income tax (expense) on other income and expense | (244) | (54) | (45) | 359 | 16 |
| Net other income (expense) | 353 | 78 | (4) | (436) | (9) |
| Interest: | | | | | |
| Interest expense | 199 | 7,631 | 642 | (669) | 7,803 |
| Less: capitalized interest | | (405) | (134) | | (539) |
| Net interest expense | 199 | 7,226 | 508 | (669) | 7,264 |
| Equity earnings of subsidiaries | 13,291 | | | (13,291) | |
| Net income (loss) | \$ 13,510 | \$ 14,048 | \$ (773) | \$ (13,275) | \$ 13,510 |

Table of Contents**CALIFORNIA WATER SERVICE GROUP****CONDENSED CONSOLIDATING STATEMENT OF INCOME**

For the six months ended June 30, 2014

(In thousands)

| | Parent Company | Cal Water | All Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------------|------------|---------------------------|------------------------------|--------------|
| Operating revenue | \$ | \$ 254,089 | \$ 14,842 | \$ | \$ 268,931 |
| Operating expenses: | | | | | |
| Operations: | | | | | |
| Water production costs | | 102,882 | 4,435 | | 107,317 |
| Administrative and general | 33 | 43,862 | 5,042 | | 48,937 |
| Other | | 29,025 | 3,607 | (252) | 32,380 |
| Maintenance | | 9,656 | 337 | | 9,993 |
| Depreciation and amortization | 100 | 29,915 | 2,178 | (53) | 32,140 |
| Income tax (benefit) expense | (105) | 4,081 | (1,079) | 454 | 3,351 |
| Taxes other than income taxes | | 9,143 | 1,226 | | 10,369 |
| Total operating expenses | 28 | 228,564 | 15,746 | 149 | 244,487 |
| Net operating (loss) income | (28) | 25,525 | (904) | (149) | 24,444 |
| Other Income and Expenses: | | | | | |
| Non-regulated revenue | 917 | 7,237 | 747 | (1,147) | 7,754 |
| Non-regulated expenses, net | | (5,748) | (624) | | (6,372) |
| Income tax (expense) on other income and expense | (374) | (606) | (12) | 432 | (560) |
| Net other income | 543 | 883 | 111 | (715) | 822 |
| Interest: | | | | | |
| Interest expense | 125 | 13,944 | 979 | (896) | 14,152 |
| Less: capitalized interest | | (538) | (42) | | (580) |
| Net interest expense | 125 | 13,406 | 937 | (896) | 13,572 |
| Equity earnings of subsidiaries | 11,304 | | | (11,304) | |
| Net income (loss) | \$ 11,694 | \$ 13,002 | \$ (1,730) | \$ (11,272) | \$ 11,694 |

Table of Contents**CALIFORNIA WATER SERVICE GROUP****CONDENSED CONSOLIDATING STATEMENT OF INCOME**

For the six months ended June 30, 2013

(In thousands)

| | Parent Company | Cal Water | All Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------------|------------|---------------------------|------------------------------|--------------|
| Operating revenue | \$ | \$ 251,161 | \$ 14,838 | \$ | \$ 265,999 |
| Operating expenses: | | | | | |
| Operations: | | | | | |
| Water production costs | | 96,543 | 4,799 | | 101,342 |
| Administrative and general | | 43,069 | 5,367 | | 48,436 |
| Other | | 29,607 | 3,320 | (252) | 32,675 |
| Maintenance | | 7,994 | 327 | | 8,321 |
| Depreciation and amortization | 28 | 27,454 | 1,694 | (56) | 29,120 |
| Income tax (benefit) expense | (229) | 9,086 | (1,171) | 716 | 8,402 |
| Taxes other than income taxes | | 9,869 | 1,281 | | 11,150 |
| Total operating (income) expenses | (201) | 223,622 | 15,617 | 408 | 239,446 |
| Net operating income (loss) | 201 | 27,539 | (779) | (408) | 26,553 |
| Other Income and Expenses: | | | | | |
| Non-regulated revenue | 1,167 | 6,187 | 940 | (1,557) | 6,737 |
| Non-regulated expenses, net | | (4,793) | (864) | | (5,657) |
| Income tax (expense) on other income and expense | (476) | (568) | (84) | 693 | (435) |
| Net other income (expenses) | 691 | 826 | (8) | (864) | 645 |
| Interest: | | | | | |
| Interest expense | 533 | 15,358 | 1,254 | (1,305) | 15,840 |
| Less: capitalized interest | | (784) | (295) | | (1,079) |
| Net interest expense | 533 | 14,574 | 959 | (1,305) | 14,761 |
| Equity earnings of subsidiaries | 12,078 | | | (12,078) | |
| Net income (loss) | \$ 12,437 | \$ 13,791 | \$ (1,746) | \$ (12,045) | \$ 12,437 |

Table of Contents**CALIFORNIA WATER SERVICE GROUP****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

For the six months ended June 30, 2014

(In thousands)

| | Parent Company | Cal Water | All Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------------|-----------|---------------------------|------------------------------|--------------|
| Operating activities: | | | | | |
| Net income (loss) | \$ 11,694 | \$ 13,002 | \$ (1,730) | \$ (11,272) | \$ 11,694 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Equity earnings of subsidiaries | (11,304) | | | 11,304 | |
| Dividends received from affiliates | 15,527 | | | (15,527) | |
| Depreciation and amortization | 100 | 30,852 | 2,263 | (53) | 33,162 |
| Changes in value of life insurance contracts | | (721) | | | (721) |
| Other changes in noncurrent assets and liabilities | 1,570 | 23,088 | (551) | 21 | 24,128 |
| Changes in operating assets and liabilities: | (249) | (26,137) | 1,307 | | (25,079) |
| Net cash provided by operating activities | 17,338 | 40,084 | 1,289 | (15,527) | 43,184 |
| Investing activities: | | | | | |
| Utility plant expenditures | | (53,437) | (3,610) | | (57,047) |
| Changes in affiliate advances | (6,175) | 1,092 | | 5,083 | |
| Proceeds from affiliates long-term debt | 462 | | | (462) | |
| Purchase of life insurance contracts | | (1,707) | | | (1,707) |
| Changes in restricted cash | | 313 | | | 313 |
| Net cash (used in) investing activities | (5,713) | (53,739) | (3,610) | 4,621 | (58,441) |
| Financing Activities: | | | | | |
| Short-term borrowings | 4,400 | 35,000 | | | 39,400 |
| Repayment of short-term borrowings | (5,000) | | | | (5,000) |
| Changes in affiliate advances | (47) | 1,087 | 4,043 | (5,083) | |
| Repayment of affiliates long-term borrowings | | | (462) | 462 | |
| Repayment of long-term debt | | (2,607) | (1,556) | | (4,163) |
| Advances and contributions in aid for construction | | 5,427 | 523 | | 5,950 |
| Refunds of advances for construction | | (3,158) | (45) | | (3,203) |
| Dividends paid to non-affiliates | (15,527) | | | | (15,527) |
| Dividends paid to affiliates | | (15,238) | (289) | 15,527 | |
| Net cash (used in) provided by financing activities | (16,174) | 20,511 | 2,214 | 10,906 | 17,457 |
| Change in cash and cash equivalents | (4,549) | 6,856 | (107) | | 2,200 |
| Cash and cash equivalents at beginning of period | 5,280 | 20,790 | 1,436 | | 27,506 |
| Cash and cash equivalents at end of period | \$ 731 | \$ 27,646 | \$ 1,329 | \$ | \$ 29,706 |

Table of Contents**CALIFORNIA WATER SERVICE GROUP****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

For the six months ended June 30, 2013

(In thousands)

| | Parent Company | Cal Water | All Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------------|-----------|---------------------------|------------------------------|--------------|
| Operating activities: | | | | | |
| Net income (loss) | \$ 12,437 | \$ 13,791 | \$ (1,746) | \$ (12,045) | \$ 12,437 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Equity earnings of subsidiaries | (12,078) | | | 12,078 | |
| Dividends received from affiliates | 14,343 | | | (14,343) | |
| Depreciation and amortization | | 28,350 | 1,794 | (56) | 30,088 |
| Change in value of life insurance contracts | | (504) | | | (504) |
| Other changes in noncurrent assets and liabilities | 108 | 883 | 336 | 23 | 1,350 |
| Changes in operating assets and liabilities | (514) | (7,765) | 1,684 | | (6,595) |
| Net cash provided by operating activities | 14,296 | 34,755 | 2,068 | (14,343) | 36,776 |
| Investing activities: | | | | | |
| Utility plant expenditures | | (57,764) | (8,426) | | (66,190) |
| Investment in affiliates | (35,000) | | | 35,000 | |
| Net changes in affiliate advances | (7,294) | (324) | 742 | 6,876 | |
| Repayment of affiliates long-term debt | 605 | 7,796 | | (8,401) | |
| Purchase of life insurance | | (1,608) | | | (1,608) |
| Changes in restricted cash and other changes, net | | 1,079 | | | 1,079 |
| Net cash (used in) investing activities | (41,689) | (50,821) | (7,684) | 33,475 | (66,719) |
| Financing Activities: | | | | | |
| Short-term borrowings | 12,615 | 20,000 | | | 32,615 |
| Repayment of short-term borrowings | (68,275) | (25,000) | | | (93,275) |
| Proceeds from long-term debt | | | 48 | | 48 |
| Repayment of long-term debt | | (2,230) | (323) | | (2,553) |
| Net changes in affiliate advances | 758 | (892) | 7,010 | (6,876) | |
| Repayment of affiliates long-term debt | (7,796) | | (605) | 8,401 | |
| Advances and contributions in aid for construction | | 4,989 | 17 | | 5,006 |
| Refunds of advances for construction | | (3,467) | (45) | | (3,512) |
| Dividends paid to non-affiliates | (14,343) | | | | (14,343) |
| Dividends paid to affiliates | | (12,889) | (1,454) | 14,343 | |
| Issuance of common stock, net | 105,835 | | | | 105,835 |
| Investment from affiliates | | 35,000 | | (35,000) | |
| Net cash provided by financing activities | 28,794 | 15,511 | 4,648 | (19,132) | 29,821 |
| Change in cash and cash equivalents | 1,401 | (555) | (968) | | (122) |
| Cash and cash equivalents at beginning of period | 1,470 | 34,609 | 2,711 | | 38,790 |
| Cash and cash equivalents at end of period | \$ 2,871 | \$ 34,054 | \$ 1,743 | \$ | \$ 38,668 |

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Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollar amounts in thousands, except where otherwise noted and per share amounts)

FORWARD LOOKING STATEMENTS

This quarterly report, including all documents incorporated by reference, contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 (Act). Forward-looking statements in this quarterly report are based on currently available information, expectations, estimates, assumptions and projections, and our management's beliefs, assumptions, judgments and expectations about us, the water utility industry and general economic conditions. These statements are not statements of historical fact. When used in our documents, statements that are not historical in nature, including words like expects, intends, plans, believes, may, estimates, assumes, anticipates, projects, predicts, forecasts, should, seeks, or variations of these words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are based on numerous assumptions that we believe are reasonable, but they are open to a wide range of uncertainties and business risks. Consequently, actual results may vary materially from what is contained in a forward-looking statement.

Factors which may cause actual results to be different than those expected or anticipated include, but are not limited to:

- governmental and regulatory commissions' decisions, including decisions on proper disposition of property;
- changes in regulatory commissions' policies and procedures;
- the timeliness of regulatory commissions' actions concerning rate relief;
- changes in the capital markets and access to sufficient capital on satisfactory terms;
- new legislation;

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- changes in California Department of Public Health water quality standards;
- changes in environmental compliance and water quality requirements;
- changes in accounting valuations and estimates;
- changes in accounting treatment for regulated companies, including adoption of International Financial Reporting Standards, if required;
- electric power interruptions;
- increases in suppliers' prices and the availability of supplies including water and power;
- fluctuations in interest rates;
- litigation that may result in damages or costs not recoverable from third parties;
- acquisitions and the ability to successfully integrate acquired companies;
- the ability to successfully implement business plans;
- civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type;
- the involvement of the United States in war or other hostilities;
- our ability to attract and retain qualified employees;

- labor relations matters as we negotiate with the unions;

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- federal health care law changes could result in increases to Company health care costs and additional income tax expenses in future years;
- changes in federal and state income tax regulations and treatment of such by regulatory commissions;
- implementation of new information technology systems;
- changes in operations that result in an impairment to acquisition goodwill;
- restrictive covenants in or changes to the credit ratings on current or future debt that could increase financing costs or affect the ability to borrow, make payments on debt, or pay dividends;
- our general economic conditions, including changes in customer growth patterns and the Company's ability to collect billed revenue from customers;
- changes in customer water use patterns and the effects of conservation;
- the impact of weather and climate on water sales and operating results;
- the ability to satisfy requirements related to the Sarbanes-Oxley and Dodd-Frank Acts and other regulations on internal controls; and
- the risks set forth in "Risk Factors" included elsewhere in this quarterly report.

In light of these risks, uncertainties and assumptions, investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this quarterly report or as of the date of any document incorporated by reference in this report, as applicable. When considering forward-looking statements, investors should keep in mind the cautionary statements in this quarterly report and the documents incorporated by reference. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING POLICIES

We maintain our accounting records in accordance with accounting principles generally accepted in the United States of America (GAAP) and as directed by the Commissions to which our operations are subject. The process of preparing financial statements in accordance with GAAP requires the use of estimates on the part of management. The estimates used by management are based on historic experience and an understanding of current facts and circumstances. Management believes that the following accounting policies are critical because they involve a higher degree of complexity and judgment, and can have a material impact on our results of operations, financial condition, and cash flows of the business. These policies and their key characteristics are discussed in detail in the 2013 Form 10-K. They include:

- revenue recognition and the water revenue adjustment mechanism;
- modified cost balancing accounts;
- expense balancing and memorandum accounts;
- regulatory utility accounting;
- income taxes;
- pension benefits;
- workers' compensation and other claims;
- goodwill accounting and evaluation for impairment; and
- contingencies.

For the six-month period ended June 30, 2014, there were no changes in the methodology for computing critical accounting estimates, no additional accounting estimates met the standards for critical accounting policies, and there were no material changes to the important assumptions underlying the critical accounting estimates.

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RESULTS OF SECOND QUARTER 2014 OPERATIONS COMPARED TO
SECOND QUARTER 2013 OPERATIONS

Amounts in thousands except share data

Overview

Net income for the three month period ended June 30, 2014 was \$17.2 million or \$0.36 per diluted common share compared to net income of \$13.5 million or \$0.28 per diluted common share for the three month period ended June 30, 2013. Net income increased \$3.7 million during the second quarter of 2014 compared to the second quarter of 2013. The increase was due to a \$2.5 million one time tax benefit, an increase in estimated unbilled revenue, and a decrease in net interest expense which was partially offset by operating expense increases. The increase in the unbilled revenue estimate resulted in an increase in pre-tax income of \$4.3 million for the three month period ended June 30, 2014 and was driven by higher customer consumption at the end of the quarter. Unbilled revenue does not affect the WRAM calculation or balance. The operating cost increases were driven by depreciation expense increases for plant placed in service during 2013, mains and well maintenance cost increases, an increase in uninsured losses, and wage increases which were effective January 1, 2014. Net other income, net of income taxes, increased \$0.7 million, mostly due to a higher unrealized gain on our benefit plan insurance investments during the second quarter of 2014 compared to the second quarter of 2013.

Operating Revenue

Operating revenue increased \$3.9 million or 2.5% to \$158.4 million in the second quarter of 2014. The factors that impacted the operating revenue for the second quarter of 2014 as compared to 2013 are as follows:

| | | |
|---------------------------------------|----|---------|
| Net effect of WRAM | \$ | 8,601 |
| Pension balancing account | | (1,724) |
| Conservation balancing account | | 739 |
| Net change due to usage and other | | (3,845) |
| Rate increases | | 1,085 |
| Deferral of net WRAM and MCBA revenue | | (995) |
| Net operating revenue increase | \$ | 3,861 |

The net effect of WRAM in the above table was the revenue changes recognized by the WRAM and MCBA. The WRAM is impacted by changes in consumption patterns from our historical trends as well as an increase in conservation efforts. The MCBA, which records the differences in production costs from the adopted costs, is recorded as an adjustment to revenue as it represents pass through costs which are billed to customers. The MCBA is impacted by changes in total production quantities, the production mix of the source of water, the price paid for purchased water and power, and the amount of pump taxes paid. The net change during the three months ended June 30, 2014 compared to the three months ended June 30, 2013 resulted in an increase to revenue of \$8.6 million due to a decrease in consumption in 2014 which increased the WRAM and MCBA adjustment because actual consumption was farther from the adopted values in 2014 compared to 2013.

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The pension balancing account in the above table refers to the difference between actual expenses and adopted rate recovery. The decrease of \$1.7 million is due to lower actual pension expenses as compared to adopted rate recovery in 2014.

The net change in usage and other in the above table was the difference between actual metered customer consumption during the three months ended June 30, 2014 and the three months ended June 30, 2013. The \$3.8 million usage and other revenue decrease was due to a decrease in customer consumption during the second quarter of 2014 compared to 2013. This was partially offset by a \$4.3 million increase in accrued unbilled operating revenue which is not a component of the WRAM. The quarterly changes in the accrued unbilled operating revenue usually vary year over year. These changes are usually most variable in the first and third quarters due to weather conditions and have not had a significant impact on annual revenue in past years.

The deferral of net WRAM and MCBA revenue in the table above occurs whenever a district net receivable balance is estimated to be collected more than 24 months after the respective reporting period in which it was recognized. The deferrals are reversed when district net receivable balances are estimated to be collected within 24-months. The \$1.0 million net revenue decrease during the second quarter of 2014 as compared to the second quarter of 2013 was mostly due to a larger deferral of net WRAM and MCBA revenues during the second quarter of 2014 as compared to the second quarter of 2013. The deferral in 2014 has increased because of a decrease in actual consumption relative to adopted consumption, which has caused an increase in the net receivables that are expected to be collected more than 24 months after the respective reporting period in which it was recognized.

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The components of the rate increases are as follows:

| | | |
|-----------------------------------|-----------|--------------|
| Purchased water offset increases | \$ | 1,009 |
| General rate case (GRC) increases | | 76 |
| Total increase in rates | \$ | 1,085 |

Total Operating Expenses

Total operating expenses were \$135.1 million for the second quarter of 2014, versus \$133.8 million for the same period in 2013, a 1% increase.

Water production expense consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 46% of total operating expenses in the second quarter of 2014. Water production expenses increased 4% compared to the same period last year mostly due to purchased water price increases and an increase in customer usage.

Sources of water as a percent of total water production are listed in the following table:

| | Three Months Ended June 30 | |
|-----------------|-----------------------------------|-------------|
| | 2014 | 2013 |
| Well production | 51% | 47% |
| Purchased | 46% | 48% |
| Surface | 3% | 5% |
| Total | 100% | 100% |

The components of water production costs are shown in the table below:

| | Three Months Ended June 30 | | | Change |
|-----------------|-----------------------------------|------------------|-----------------|---------------|
| | 2014 | 2013 | | |
| Purchased water | \$ 49,150 | \$ 47,883 | \$ 1,267 | |
| Purchased power | 9,133 | 8,778 | 355 | |
| Pump taxes | 3,632 | 2,984 | 648 | |
| Total | \$ 61,915 | \$ 59,645 | \$ 2,270 | |

Purchased water costs increased due to price increases from water wholesalers. Total water production, measured in acre feet, decreased by 2% during the second quarter of 2014 as compared to the second quarter of 2013.

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Administrative and general expense and other operations expense decreased 1% to \$39.8 million during the second quarter of 2014 as compared to the second quarter of 2013 mostly due to a decrease in conservation plan program expenses due to the success of prior years' conservation efforts, a decrease in pension benefit expenses which was partially offset by an increase in uninsured losses, and employee wage increases. Wage increases became effective January 1, 2014. At June 30, 2014, there were 1,128 employees and at June 30, 2013, there were 1,127 employees.

Maintenance expense increased by 19% to \$5.0 million in the second quarter of 2014 compared to \$4.2 million in the second quarter of 2013, due to an increase in groundwater treatment facilities, transmission and distribution mains, pumping equipment, and well repair costs.

Depreciation and amortization expense increased \$1.6 million, or 11%, mostly due to 2013 capital additions.

Federal and state income tax expense for operating expenses decreased \$2.4 million in the second quarter of 2014 as compared to the second quarter of 2013 because of a \$2.5 million one time tax benefit during the second quarter of 2014. Federal and state income taxes charged to other income and expenses increased \$0.5 million in the second quarter of 2014 mostly due to an increase in unrealized gains on our benefit plan insurance investments. We expect the effective tax rate to be between 37% and 41% for fiscal year 2014.

Property and other taxes decreased \$0.6 million during the second quarter of 2014 as compared to the second quarter of 2013 due to a reduction in our assessed property values effective July 1, 2013.

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Other Income and Expenses

Net other income increased \$0.7 million in the second quarter of 2014 mostly due to an increase in unrealized gains on our benefit plan insurance investments. The unrealized gain on our benefit plan insurance investments increased \$0.6 million during the second quarter of 2014 compared to the same period last year.

Interest Expense

Net interest expense, net of interest capitalized, decreased \$0.4 million, or 6%, to \$6.9 million for the second quarter of 2014 compared to the same period last year. The decrease was mostly due to \$40.0 million of first mortgage bonds maturing during the fourth quarter of 2013 which was partially offset by an increase in short term borrowings and a decrease in capitalized interest charged to construction projects.

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RESULTS OF THE SIX MONTHS ENDED JUNE 30, 2014 OPERATIONS COMPARED TO
THE SIX MONTHS ENDED JUNE 30, 2013 OPERATIONS

Amounts in thousands except share data

Overview

Net income for the six month period ended June 30, 2014 was \$11.7 million or \$0.24 per diluted common share compared to a net income of \$12.4 million or \$0.28 per diluted common share for the six month period ended June 30, 2013. Net income decreased \$0.7 million during the first six months of 2014 compared to the first six months of 2013 due to operating cost increases which was partially offset by a \$2.5 million one time tax benefit, an increase in the estimated unbilled revenue, and decrease in net interest expense. The increase in the estimated unbilled revenue resulted in an increase in pre-tax income of \$1.7 million for the six month period ended June 30, 2014 and was driven by higher customer consumption at the end of the quarter. Unbilled revenue does not affect the WRAM calculation or balance. The operating cost increases were driven by depreciation expense increases for plant placed in service during 2013, mains and well maintenance cost increases, an increase in uninsured losses, and wage and health care cost increases. Net other income, net of income taxes, increased \$0.2 million, mostly due to a higher unrealized gain on our benefit plan insurance investments during the first six months of 2014 compared to the first six months of 2013.

Operating Revenue

Operating revenue increased \$2.9 million or 1% to \$268.9 million during the first six months of 2014. The factors that impacted the operating revenue during the first six months of 2014 as compared to the first six months of 2013 are as follows:

| | | |
|---------------------------------------|----|---------|
| Net effect of WRAM | \$ | 3,946 |
| Pension balancing account | | (3,374) |
| Conservation balancing account | | (203) |
| Net change due to usage and other | | (458) |
| Rate increases | | 2,955 |
| Deferral of net WRAM and MCBA revenue | | 66 |
| Net operating revenue increase | \$ | 2,932 |

The net effect of WRAM in the above table was the revenue changes recognized by the WRAM and MCBA. The WRAM is impacted by changes in consumption patterns from our historical trends as well as an increase in conservation efforts. The MCBA, which records the differences in production costs from the adopted costs, is recorded as an adjustment to revenue as it represents pass through costs which are billed to customers. The MCBA is impacted by changes in total production quantities, the production mix of the source of water, the price paid for purchased water and power, and the amount of pump taxes paid. The net change during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 resulted in an increase to revenue of \$3.9 million due to an increase in water production costs due to wholesaler water rate increases.

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The pension balancing account in the above table refers to the difference between actual expenses and adopted rate recovery. The decrease of \$3.4 million is due to lower actual pension expenses as compared to adopted rate recovery in 2014.

The net change in usage and other in the above table was the difference between actual metered customer consumption during the six months ended June 30, 2014 and the six months ended June 30, 2013. The \$0.5 million usage and other revenue decrease was due to a decrease in flat rate customer revenue during the six months ended 2014 compared to the six months ended June 2013 as the Company has continued to work to convert flat rate customer to metered customers. This was partially offset by an increase in accrued unbilled operating revenue which is not a component of the WRAM. The changes in the accrued unbilled operating revenue usually vary year over year. These changes are usually most variable in the first and third quarters due to weather conditions and have not had a significant impact on annual revenue in past years.

The deferral of net WRAM and MCBA revenue in the table above occurs whenever a district net receivable balance is estimated to be collected more than 24 months after the respective reporting period in which it was recognized. The deferrals are reversed when district net receivable balances are estimated to be collected within 24-months. The \$0.1 million net revenue increase during the six months ended 2014 as compared to the six months ended 2013 was mostly due to similar actual consumption relative to adopted consumption for the periods

The components of the rate increases are as follows:

| | | |
|-----------------------------------|----|-------|
| Purchased water offset increases | \$ | 2,789 |
| General rate case (GRC) increases | | 166 |
| Total increase in rates | \$ | 2,955 |

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Total Operating Expenses

Total operating expenses were \$244.5 million for the first six months of 2014, compared to \$239.4 million for the same period in 2013, a 2% increase.

Water production expense consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 44% of total operating expenses during the first six months 2014. Water production expenses increased 6% compared to the same period last year mostly due to purchased water price increases and an increase in customer usage.

Sources of water as a percent of total water production are listed in the following table:

| | Six Months Ended June 30 | |
|-----------------|--------------------------|------|
| | 2014 | 2013 |
| Well production | 49% | 46% |
| Purchased | 48% | 49% |
| Surface | 3% | 5% |
| Total | 100% | 100% |

The components of water production costs are shown in the table below:

| | Six Months Ended June 30 | | | Change |
|-----------------|--------------------------|------------|----|--------|
| | 2014 | 2013 | | |
| Purchased water | \$ 86,428 | \$ 82,729 | \$ | 3,699 |
| Purchased power | 14,706 | 13,629 | | 1,077 |
| Pump taxes | 6,183 | 4,984 | | 1,199 |
| Total | \$ 107,317 | \$ 101,342 | \$ | 5,975 |

Purchased water costs increased due to price increases from water wholesalers. Total water production, measured in acre feet, increased by 1% during the first six months of 2014 as compared to the first six months of 2013.

Administrative and general expense and other operations expense increased \$0.2 million to \$81.3 million during the first six months of 2014 as compared to the first six months of 2013 mostly due to increases in employee wages and health care costs and uninsured losses which was partially offset by a decrease in employee pension benefit costs and a decrease in conservation plan program expenses due to the success of prior years' conservation efforts. Wage increases became effective January 1, 2014.

Maintenance expense increased by 20% to \$10.0 million during the first six months of 2014 compared to \$8.3 million during the first six months of 2013, due to an increase in groundwater treatment facilities, transmission and distribution mains, pumping equipment, and well repair costs.

Depreciation and amortization expense increased \$3.0 million, or 10%, mostly due to 2013 capital additions.

Federal and state income tax expense for operating expenses decreased \$5.1 million during the first six months of 2014 because of a \$2.5 million one time tax benefit and a decrease in pre-tax income during the first six months of 2014 as compared to the first six months of 2013. Federal and state income taxes charged to other income and expenses increased \$0.1 million during the first six months of 2014 mostly due to an increase in unrealized gains on our benefit plan insurance investments. We expect the effective tax rate to be between 37% and 41% for fiscal year 2014.

Property and other taxes decreased \$0.8 million during the first six months of 2014 as compared to the first six months of 2013 due to a reduction in our assessed property values, effective July 1, 2013.

Other Income and Expenses

Net other income increased \$0.2 million during the first six months of 2014 due to an increase in unrealized gains on our benefit plan insurance investments. The unrealized gain on our benefit plan insurance investments increased \$0.2 million during the first six months of 2014 compared to the same period last year.

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Interest Expense

Net interest expense, net of interest capitalized, decreased \$1.2 million, or 8%, to \$13.6 million for the six month period ended June 30, 2014 compared to the same period in 2013. The decrease was mostly due to \$40.0 million of first mortgage bonds maturing during the fourth quarter of 2013 which was partially offset by an increase in short term borrowings and a decrease in capitalized interest charged to construction projects.

REGULATORY MATTERS

Rates and Regulation

The state regulatory commissions have plenary powers setting rates and operating standards. As such, state commission decisions significantly impact the Company's revenues, earnings, and cash flows. The amounts discussed herein are generally annual amounts, unless specifically stated, and the financial impact to recorded revenue is expected to occur over a 12-month period from the effective date of the decision. In California, water utilities are required to make several different types of filings. Most filings result in rate changes that remain in place until the next General Rate Case (GRC). As explained below, surcharges and surcredits to recover balancing and memorandum accounts as well as general rate case interim rate relief are temporary rate changes, which have specific time frames for recovery.

GRCs, escalation rate increase filings, and offset filings change rates to amounts that will remain in effect until the next GRC. The CPUC follows a rate case plan, which requires Cal Water to file a GRC for each of its regulated operating districts every three years. In a GRC proceeding, the CPUC not only considers the utility's rate setting requests, but may also consider other issues that affect the utility's rates and operations. The CPUC is generally required to issue its GRC decision prior to the first day of the test year or authorize interim rates. In accordance with the rate case plan, the Commission issued a decision on Cal Water's 2009 general rate case filing in the fourth quarter of 2010 with rates effective on January 1, 2011. In accordance with the CPUC's rate case plan for Class A water utilities Cal Water filed a GRC on July 5, 2012, which is applicable to all of its California Districts. Any rate change as a result of that filing will be effective as of January 1, 2014.

Between GRC filings utilities may file escalation rate increases, which allow the utility to recover cost increases, primarily from inflation and incremental investment, during the second and third years of the rate case cycle. However, escalation rate increases are subject to a weather-normalized earnings test on a district-by-district basis. Under the earnings test, the CPUC may reduce the escalation rate increase if, in the most recent 12-month period, this earnings test reflects earnings in excess of what was authorized for that district.

In addition, California water utilities are entitled to make offset filings. Offset filings may be filed to adjust revenues for construction projects authorized in GRCs when the plant is placed in service (referred to as "ratebase offsets"), or for rate changes charged to the Company for purchased water, purchased power, and pump taxes (referred to as "offsettable expenses"). Such rate changes approved in offset filings remain in effect until the next GRC is approved.

In pursuit of the CPUC's water conservation goals, the CPUC decoupled Cal Water's revenue requirement from customer consumption levels in 2008 by authorizing WRAM/MCBA for each ratemaking area. The WRAM/MCBA ensure that Cal Water recovers all of the quantity revenues

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authorized by the CPUC, and no more, regardless of customer consumption. This removes the Company's historical disincentive against the promotion of lower water usage among customers. Through an annual advice letter filing, Cal Water recovers any uncollected quantity revenue amounts authorized, or refunds over-collected quantity revenues, via surcharges and surcredits. The advice letters are filed between February and April of each year and address the net WRAM/MCBA balances collected for the previous calendar year. Most WRAM/MCBA balances have been revenue under-collections that are amortized through surcharges for a period of 12 or 18 months. The WRAM/MCBA amounts are cumulative, so if they are not amortized in a given calendar year, the balance will be carried forward and included with the following year balance.

2014 Regulatory Activity

California GRC filing

On July 5, 2012, Cal Water filed a GRC application seeking rate increases in all regulated operating districts in California beginning January 1, 2014. The GRC application requested an increase of \$92.7 million or 19.4% in rates for 2014, \$17.2 million or 3.0% in rates for 2015 and \$16.9 million or 2.9% in rates for 2016. In addition to the CPUC's Office of Ratepayer Advocates

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(ORA), (formerly the Division of Ratepayer Advocates), several other entities representing various districts intervened in the case to become active parties. In early 2013, six parties submitted testimony in response to Cal Water's application, and Cal Water submitted rebuttal testimony. Settlement negotiations began in May 2013, and on October 30, 2013, Cal Water entered into a settlement agreement with all parties who were active in the case.

On December 19, 2013, the assigned Administrative Law Judge granted Cal Water's request to continue applying existing rates on and after January 1, 2014 as interim rates and is allowing Cal Water to track the difference between interim rates and the new rates eventually adopted by the Commission in a memorandum account. Once the Commission issues a final order and new rates are implemented, the memorandum account balance will be collected and amortized through customer surcharges. On July 21, 2014, the California Public Utilities Commission issued its proposed decision authorizing Cal Water to increase rates by \$45.3 million or 9.2% in 2014, \$10.1 million or 1.9% in 2015 and \$10.0 million or 1.8% in 2016. Also, the proposed decision authorizes Cal Water to invest \$448.9 million in districts throughout California over the three-year period from January 1, 2013 through December 31, 2015 in order to provide a safe and reliable water supply to its customers. Included in the \$448.9 million in water system infrastructure improvements is \$125.8 million that would be recovered through the Commission's advice letter procedure upon completion of qualified projects which we estimate would provide an additional \$19.0 million in revenue. The Company expects the CPUC to finalize the proposed decision in the third quarter of 2014.

Federal Income Tax Bonus Depreciation

In 2011, Cal Water filed for and received approval to track the benefits from federal income tax accelerated depreciation in a memorandum account due to the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Additional federal income tax deductions for assets placed in service after September 8, 2010, and before December 31, 2011, were \$0.1 million for 2010 and \$12.2 million for 2011. The memorandum account may result in a surcredit because of the impact to Cal Water's revenue requirement for changes to working cash estimates, reductions to federal income tax qualified U.S. production activities deductions (QPAD), and changes to contributions-in-aid-of-construction. As of June 30, 2014 and December 31, 2013, the estimated surcredit range is between \$1.5 million and \$2.0 million. The CPUC will determine the disposition of amounts recorded in the memorandum account in Cal Water's next GRC proceeding.

Selma Groundwater Surcharges

In January 2014, Cal Water and the City of Selma jointly filed an application to apply groundwater surcharges to customers in the Selma District. The surcharges would be used by the City of Selma and the Consolidated Irrigation District for groundwater recharge projects in the Upper Kings River Basin, which is in overdraft. If the CPUC approves the application, groundwater surcharges would be applied to customer bills, and phased in over 8 years, to eventually collect approximately \$0.8 million a year for remittance to the City of Selma. The Office of Ratepayer Advocates has submitted testimony opposing the application, and Cal Water and the City of Selma have submitted rebuttal testimony. An evidentiary hearing was held in July, 2014.

WRAM/MCBA filings

In March 2014, Cal Water filed three advice letters to true up the revenue under-collections in the 2013 annual WRAMs/MCBAs of its regulated districts. A total under-collection of \$34.9 million is being recovered from customers in the form of 12, 18 or 20+ month surcharges (balances

that are relative to the district's annual revenues are recovered over longer time periods).

Expense Offset filings

Expense offsets are dollar-for-dollar increases in revenue to match increased expenses, and therefore do not affect net operating income. Cal Water did not file any expense offsets in the second quarter of 2014.

Ratebase Offset filings

For construction projects that are authorized in GRCs as advice letter projects, companies are allowed to file rate base offsets to increase revenues after the plant is placed into service. Cal Water did not file any Ratebase offsets in the second quarter of 2014.

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Regulatory Activity Other States

2011 Pukalani (Hawaii) GRC Filing

In August 2011, Hawaii Water filed a general rate case for Pukalani. On January 15, 2014, Hawaii Water received a Decision and Order for the general rate case for the Pukalani wastewater system approving \$0.59 million in additional annual revenues. Hawaii Water reached a comprehensive and conceptual settlement with the Consumer Advocate. This decision approved an increase of \$0.28 million in 2014, another increase of \$0.15 million in 2015, and another increase of \$0.15 million in 2016. Each increase is separated by one year. The new rates for 2014 were implemented in February.

2012 Waikoloa (Hawaii) GRC Filings

In August 2012, Hawaii Water filed general rate cases for the Waikoloa Village Water, Waikoloa Village Wastewater and Waikoloa Resort Utilities requesting \$6.3 million in additional annual revenues. The cases are being processed at this time on separate schedules. Hawaii Water and the Consumer Advocate reached settlements on the rate filings for Waikoloa Village Water, Wastewater, and Resort Utilities which would increase annual revenues by \$2.7 million if adopted by the Hawaii Public Utilities Commission. On July 16, 2014, the Hawaii Public Utilities Commission approved Waikaloa Resort Utilities, Inc. general rate case authorizing annual revenue increase of \$2.0 million.

LIQUIDITY

Cash flow from Operations

Cash flow from operations for the first six months of 2014 was \$43.2 million compared to \$36.8 million for the same period of 2013. Cash generated by operations varies during the year due to customer billings, timing of contributions to our benefit plans, and timing of estimated tax payments.

During the first six months of 2014 we made contributions of \$16.4 million to our pension and retiree health care plans compared to contributions of \$17.8 million made during the first six months of 2013. The 2014 estimated cash contribution to the pension plans is \$26.8 million and to the other postretirement benefit plans is \$9.6 million.

During the first six months of 2014 we received a \$6.0 million refund for 2013 calendar year federal and state income tax payments. No federal and state income refunds were received during the prior year.

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The water business is seasonal. Billed revenue is lower in the cool, wet winter months when less water is used compared to the warm, dry summer months when water use is highest. This seasonality results in the possible need for short-term borrowings under the bank lines of credit in the event cash is not available to cover operating and capital costs during the winter period. The increase in cash flows during the summer allows short-term borrowings to be paid down. Customer water usage can be lower than normal in years when more than normal precipitation falls in our service areas or temperatures are lower than normal, especially in the summer months. The reduction in water usage reduces cash flows from operations and increases the need for short-term bank borrowings. In addition, short-term borrowings are used to finance capital expenditures until long-term financing is arranged.

Investing Activities

During the first the first six months of 2014 and 2013, we used \$57.0 million and \$66.2 million, respectively, of cash for both company-funded and developer-funded capital expenditures. For 2014, our capital budget is approximately \$110 to \$130 million. Annual expenditures fluctuate each year due to the availability of construction resources and our ability to obtain construction permits in a timely manner.

Financing Activities

Net cash provided by financing activities was \$17.5 million during the first six months of 2014 compared to \$29.8 million for the same period of 2013.

During the first six months of 2014, we borrowed \$39.4 million and paid down \$5.0 million on our unsecured revolving credit facilities.

On March 26, 2013, we sold 5,750,000 shares of its common stock in an underwritten public offering for cash proceeds of approximately \$105.6 million, net of underwriting discounts and commissions and offering expenses. The net proceeds from the sale of common stock were added to our general funds to be used for general corporate purposes. In April 2013, we used a portion of the net proceeds from the offering to repay outstanding borrowings on the Company and Cal Water lines of credit of \$68.3 million and \$25.0 million, respectively.

The undercollected net WRAM and MCBA receivable balances were \$53.0 million as of June 30, 2014 and \$46.3 million as of December 31, 2013, respectively. The undercollected balances were primarily financed by Cal Water using short-term and long-term financing arrangements to meet operational cash requirements. Interest on the undercollected balances, the interest recoverable from ratepayers, is limited to the current 90-day commercial paper rates which is significantly lower than Cal Water's short and long-term financing rates.

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Short-Term and Long-Term Financing

Short-term liquidity is provided by our unsecured revolving credit facilities, which were amended and replaced on June 29, 2011, and internally generated funds. Long-term financing is accomplished through the use of both debt and equity. On September 23, 2010, the CPUC authorized Cal Water to issue \$350 million of debt and common stock to finance capital projects and operations.

During the first six months of 2014, we utilized cash generated operations and borrowings on the unsecured revolving credit facilities. We have not issued Company common stock or first mortgage bonds in 2014. In future periods, management anticipates funding our capital needs through a relatively balanced approach between long term debt and equity.

As of June 30, 2014, there were short-term borrowings of \$81.2 million outstanding on the unsecured revolving credit facilities compared to \$46.8 million as of December 31, 2013. The increase in short-term borrowings during the first six months of 2014 was to fund capital expenditures and general operations.

Given our ability to access our lines of credit on a daily basis, cash balances are managed to levels required for daily cash needs and excess cash is invested in short-term or cash equivalent instruments. Minimal operating levels of cash are maintained for Washington Water, New Mexico Water, and Hawaii Water.

Both short-term credit agreements contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, these unsecured credit agreements contain financial covenants governing the Company and its subsidiaries consolidated total capitalization ratio not to exceed 66.7% and an interest coverage ratio of three or more. As of June 30, 2014, we are in compliance with all of the covenant requirements and are eligible to use the full amount of our credit facilities.

Bond principal and other long-term debt payments were \$4.2 million during the first six months of 2014 compared to \$2.6 million during the first six months of 2013.

Long-term financing, which includes senior notes, other debt securities, and common stock, has typically been used to replace short-term borrowings and fund capital expenditures. Internally generated funds, after making dividend payments, provide positive cash flow, but have not been at a level to meet the needs of our capital expenditure requirements. Management expects this trend to continue given our capital expenditures plan for the next five years. Some capital expenditures are funded by payments received from developers for contributions in aid of construction or advances for construction. Funds received for contributions in aid of construction are non-refundable, whereas funds classified as advances in construction are refundable. Management believes long-term financing is available to meet our cash flow needs through issuances in both debt and equity instruments.

Dividends

During the first six months of 2014, our quarterly common stock dividend payments were \$0.1625 per share compared to quarterly common stock dividend payments of \$0.160 per common share during first six months of 2013. The second quarter dividend payment was our 277th consecutive quarterly dividend. Annualized, the 2014 dividend rate is \$0.65 per common share, compared to \$0.64 in 2013. For the full year 2013, the payout ratio was 63% of net income. On a long-term basis, our goal is to achieve a dividend payout ratio of 60% of net income accomplished through future earnings growth.

At its July 30, 2014 meeting, the Board declared the third quarter dividend of \$0.1625 per share payable on August 22, 2014, to stockholders of record on August 11, 2014. This was our 278th consecutive quarterly dividend.

2014 Financing Plan

We intend to fund our capital needs in future periods through a relatively balanced approach between long-term debt and equity. The Company and Cal Water have a three-year syndicated unsecured revolving line of credit of \$100 million and \$300 million, respectively for short-term borrowings. As of June 30, 2014, the Company's availability on these unsecured revolving lines of credit was \$319 million.

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Book Value and Stockholders of Record

Book value per common share was \$12.47 at June 30, 2014 compared to \$12.54 at December 31, 2013. There were approximately 2,219 stockholders of record for our common stock as of July 24, 2014.

Utility Plant Expenditures

During the first six months of 2014, capital expenditures totaled \$57.0 million for company-funded and developer-funded projects. The planned 2014 company-funded capital expenditure budget is approximately \$110 to \$130 million. The actual amount may vary from the budget number due to timing of actual payments related to current year and prior year projects. We do not control third-party-funded capital expenditures and therefore are unable to estimate the amount of such projects for 2014.

At June 30, 2014, construction work in progress was \$116.8 million compared to \$152.7 million at June 30, 2013. Work in progress includes projects that are under construction but not yet complete and placed in service.

WATER SUPPLY

Our source of supply varies among our operating districts. Certain districts obtain all of their supply from wells; some districts purchase all of their supply from wholesale suppliers; and other districts obtain supply from a combination of wells and wholesale suppliers. A small portion of supply comes from surface sources and is processed through Company-owned water treatment plants. To the best of management's knowledge, we are meeting water quality, environmental, and other regulatory standards for all company-owned systems.

California's normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington Water service areas receive precipitation in all seasons, with the heaviest amounts during the winter. New Mexico Water's rainfall is heaviest in the summer monsoon season. Hawaii Water receives precipitation throughout the year, with the largest amounts in the winter months. Water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. As of July 1, 2014, the State of California snowpack water content and rainfall accumulation during the 2013-2014 water year is 59% of normal (per the California Department of Water Resources, Northern Sierra Precipitation Accumulation report). Precipitation in California during the first six months of 2014 was below normal. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2014 and beyond. Long-term water supply plans are developed for each of our districts to help assure an adequate water supply under various operating and supply conditions. Some districts have unique challenges in meeting water quality standards, but management believes that supplies will meet current standards using current treatment processes.

CONTRACTUAL OBLIGATIONS

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During the first six months of 2014, there were no material changes in contractual obligations outside the normal course of business.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We do not hold, trade in or issue derivative financial instruments and therefore are not exposed to risks these instruments present. Our market risk to interest rate exposure is limited because the cost of long-term financing and short-term bank borrowings, including interest costs, is covered in consumer water rates as approved by the commissions. We do not have foreign operations; therefore, we do not have a foreign currency exchange risk. Our business is sensitive to commodity prices and is most affected by changes in purchased water and purchased power costs.

Historically, the CPUC's balancing account or offsettable expense procedures allowed for increases in purchased water and purchased power costs to be passed on to consumers. Traditionally, a significant percentage of our net income and cash flows comes from California regulated operations; therefore the CPUC's actions have a significant impact on our business. See Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies -Expense Balancing and Memorandum Accounts and Regulatory Matters .

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Item 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(c) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Accordingly, our disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives.

Our management, with the participation of our CEO and our CFO, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. Based on that evaluation, we concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes to Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued an updated version of its Internal Control-Integrated Framework (2013 Framework). Originally issued in 1992 (1992 Framework), the framework helps organizations design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. The 1992 Framework remains available during the transition period, which extends to December 15, 2014, after which time COSO will consider it as superseded by the 2013 Framework. As of June 30, 2014, the Company continues to utilize the 1992 Framework during the transition to the 2013 Framework by the end of 2014.

PART II OTHER INFORMATION

Item 1.

LEGAL PROCEEDINGS

From time to time, the Company has been named as a co-defendant in asbestos-related lawsuits. Several of these cases against the Company have been dismissed without prejudice. In other cases the Company's contractors and insurance policy carriers have settled the cases with no effect on the Company's financial statements. As such, the Company does not currently believe there is any potential loss that is probable to occur related to these matters and therefore no accrual has been recorded.

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. The status of each significant matter is reviewed and assessed for potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, a liability is accrued for the estimated loss in accordance with the accounting standards for contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe when taking into account existing reserves the ultimate resolution of these matters will materially affect the Company's financial position, results of operations, or cash flows. In the future, we may be involved in disputes and litigation related to a wide range of matters, including employment, construction, environmental issues and operations. Litigation can be time consuming and expensive and could divert management's time and attention from our business. In addition, if we are subject to additional lawsuits or disputes, we might incur significant legal costs and it is uncertain whether we would be able to recover the legal costs from ratepayers or other third parties.

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Item 1A.

RISK FACTORS

There have been no material changes to the Company's risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year-ended December 31, 2013, filed with the SEC on February 27, 2014.

Item 6.

EXHIBITS

| Exhibit | Description |
|----------------|---|
| 31.1 | Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes- Oxley Act of 2002 |
| 31.2 | Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes- Oxley Act of 2002 |
| 32 | Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CALIFORNIA WATER SERVICE GROUP
Registrant

July 31, 2014

By:

/s/ Thomas F. Smegal III
Thomas F. Smegal III
Vice President,
Chief Financial Officer and Treasurer

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