

AMERICAN STATES WATER CO

Form 10-K

February 23, 2017

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2016 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission	Registrant, State of Incorporation	IRS Employer
File Number	Address, Zip Code and Telephone Number	Identification No.

001-14431	American States Water Company (Incorporated in California) 630 E. Foothill Boulevard, San Dimas, CA 91773-1212 (909) 394-3600	95-4676679
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001-12008	Golden State Water Company (Incorporated in California) 630 E. Foothill Boulevard, San Dimas, CA 91773-1212 (909) 394-3600	95-1243678
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Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American States Water Company Common Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

American States Water Company Yes No

Golden State Water Company Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

American States Water Company Yes No

Golden State Water Company Yes No

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

American States Water Company Yes No

Golden State Water Company Yes No

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Indicate by check mark whether 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 (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files).

American States Water Company Yes No

Golden State Water Company Yes No

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

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

American States Water Company

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Golden State Water Company

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

American States Water Company Yes No

Golden State Water Company Yes No

The aggregate market value of all voting Common Shares held by non-affiliates of American States Water Company was approximately \$1,601,802,000 and \$1,629,577,000 on June 30, 2016 and February 21, 2017, respectively. The closing price per Common Share of American States Water Company on February 21, 2017, as quoted in The Wall Street Journal website, was \$44.54. As of February 21, 2017, the number of Common Shares of American States Water Company outstanding was 36,586,831. As of that same date, American States Water Company owned all 146 outstanding Common Shares of Golden State Water Company. The aggregate market value of all voting stock held by non-affiliates of Golden State Water Company was zero on June 30, 2016 and February 21, 2017.

Golden State Water Company meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form, in part, with the reduced disclosure format for Golden State Water Company.

Documents Incorporated by Reference:

Portions of the Proxy Statement of American States Water Company will be subsequently filed with the Securities and Exchange Commission as to Part III, Item Nos. 10, 11, 13 and 14 and portions of Item 12, in each case as specifically referenced herein.

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AMERICAN STATES WATER COMPANY
and
GOLDEN STATE WATER COMPANY

FORM 10-K

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PART I

Item 1. Business

This annual report on Form 10-K is a combined report being filed by two separate Registrants, American States Water Company (“AWR”) and Golden State Water Company (“GSWC”). References in this report to “Registrant” are to AWR and GSWC, collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than GSWC.

AWR makes its periodic reports, Form 10-Q and Form 10-K, and current reports, Form 8-K, available free of charge through its website, www.aswater.com, as soon as material is electronically filed with or furnished to the Securities and Exchange Commission (“SEC”). Such reports are also available on the SEC’s website at www.sec.gov. AWR also makes available free of charge its code of business conduct and ethics, its corporate governance guidelines and the charters of its Board of Directors, Nominating and Governance Committee, Compensation Committee, and Audit and Finance Committee through its website or by calling (800) 999-4033. AWR and GSWC have filed the certification of officers required by Section 302 of the Sarbanes-Oxley Act as Exhibits 31.1 and 31.2 to its Form 10-K for the year ended December 31, 2016.

Overview

AWR is the parent company of GSWC and American States Utility Services, Inc. (“ASUS”) (and its wholly owned subsidiaries Fort Bliss Water Services Company (“FBWS”), Terrapin Utility Services, Inc. (“TUS”), Old Dominion Utility Services, Inc. (“ODUS”), Palmetto State Utility Services, Inc. (“PSUS”), Old North Utility Services, Inc. (“ONUS”) and Emerald Coast Utility Services, Inc. (“ECUS”). AWR was incorporated as a California corporation in 1998 as a holding company. AWR has three reportable segments: water, electric and contracted services. Within the segments, AWR has two principal business units, water and electric service utility operations, conducted through GSWC, and contracted services conducted through ASUS and its subsidiaries. FBWS, TUS, ODUS, PSUS, ONUS and ECUS may be referred to herein collectively as the “Military Utility Privatization Subsidiaries.”

GSWC is a public utility engaged principally in the purchase, production, distribution and sale of water in 10 counties in the State of California. GSWC is regulated by the California Public Utilities Commission (“CPUC”). It was incorporated as a California corporation on December 31, 1929. GSWC also distributes electricity in several San Bernardino County mountain communities in California through its Bear Valley Electric Service (“BVES”) division.

GSWC served 261,002 water customers and 23,940 electric customers at December 31, 2016, or a total of 284,942 customers, compared with 260,151 water customers and 23,846 electric customers at December 31, 2015, or a total of 283,997 customers. GSWC’s operations exhibit seasonal trends. Although GSWC’s water utility operations have a diversified customer base, residential and commercial customers account for the majority of GSWC’s water sales and revenues. Revenues derived from commercial and residential water customers accounted for approximately 90% of total water revenues for the years ended December 31, 2016, 2015 and 2014.

ASUS, itself or through the Military Utility Privatization Subsidiaries, has contracted with the U.S. government to provide water and/or wastewater services at various military installations. ASUS operates, maintains and performs construction activities (including renewal and replacement capital work) on water and/or wastewater systems at various United States military bases pursuant to 50-year firm, fixed-price contracts. Each of the contracts with the U.S. government is subject to termination, in whole or in part, prior to the end of its 50-year term for convenience of the U.S. government or as a result of default or nonperformance by the subsidiary performing the contract. The contract price for each of these contracts is subject to either (i) redetermination every three years following the initial two years of the contract or (ii) annually under an economic price adjustment. Contracts are also subject to equitable

price adjustments and modifications for changes in circumstances, changes in laws and regulations, additions to the contract value for new construction of facilities at the military bases and changes in wages and fringe benefits to the extent provided in the contract. AWR guarantees performance of ASUS's military privatization contracts.

Pursuant to the terms of these contracts, the Military Utility Privatization Subsidiaries operate the following water and wastewater systems:

• FBWS - water and wastewater systems at Fort Bliss located near El Paso, Texas and extending into southeastern New Mexico;

• TUS - water and wastewater systems at Joint Base Andrews in Maryland;

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- ODUS - wastewater system at Fort Lee in Virginia and the water and wastewater systems at Joint-Base Langley Eustis and Joint Expeditionary Base Little Creek-Fort Story in Virginia (“TRADOC”);
- PSUS - water and wastewater systems at Fort Jackson in South Carolina;
- ONUS - water and wastewater systems at Fort Bragg, Pope Army Airfield and Camp Mackall, North Carolina; and
- ECUS - water and wastewater systems at Eglin Air Force Base in Florida expected to begin operation in the spring of 2017 pursuant to a contract awarded in July 2016.

Certain financial information for each of AWR’s business segments - water distribution, electric distribution, and contracted services - is set forth in Note 15 to the Notes to Consolidated Financial Statements of American States Water Company and its subsidiaries. AWR’s water and electric distribution segments are not dependent upon a single or only a few customers. The U.S. government is the primary customer for ASUS’s contracted services. ASUS, from time to time, performs work at military bases for other prime contractors of the U.S. government.

The revenue from AWR’s segments is seasonal. The impact of seasonality on these AWR businesses is discussed in more detail in Item 1A. “Risk Factors.”

Environmental matters and compliance with such laws and regulations are discussed in detail in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operation” under the section titled “Environmental Matters.”

Competition

The businesses of GSWC are substantially free from direct and indirect competition with other public utilities, municipalities and other public agencies within their existing service territories. However, GSWC may be subject to eminent domain proceedings in which governmental agencies, under state law, may acquire GSWC’s water systems if doing so is necessary and in the public’s interest. GSWC competes with governmental agencies and other investor-owned utilities in connection with offering service to new real estate developments on the basis of financial terms, availability of water and ability to commence providing service on a timely basis. ASUS actively competes for business with other investor-owned utilities, other third party providers of water and/or wastewater services and governmental entities primarily on the basis of quality of service and price.

AWR Workforce

AWR and its subsidiaries had a total of 736 employees as of January 31, 2017. GSWC had 563 employees as of January 31, 2017. Fourteen employees of BVES are covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers, which expires in December 2017.

ASUS had 173 employees as of January 31, 2017. Sixteen of FBWS's employees are covered by a collective bargaining agreement with the International Union of Operating Engineers. This agreement expires in September 2017.

Forward-Looking Information

This Form 10-K and the documents incorporated herein contain forward-looking statements intended to qualify for the “safe harbor” from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking

statements are based on current estimates, expectations and projections about future events and assumptions regarding these events and include statements regarding management's goals, beliefs, plans or current expectations, taking into account the information currently available to management. Forward-looking statements are not statements of historical facts. For example, when we use words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," "may" or other words that convey uncertainty of future events or outcomes, we are making forward-looking statements. We are not able to predict all the factors that may affect future results. We caution you that any forward-looking statements made by us are not guarantees of future performance and the actual results may differ materially from those in our forward-looking statements. Some of the factors that could cause future results to differ materially from those expressed or implied by our forward-looking statements or from historical results, include, but are not limited to:

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the outcome of pending and future regulatory, legislative or other proceedings, investigations or audits, including decisions in GSWC's general rate cases and the results of independent audits of GSWC's construction contracting procurement practices or other independent audits of our costs;

changes in the policies and procedures of the CPUC;

timeliness of CPUC action on rates;

availability of GSWC's water supplies, which may be adversely affected by drought, changes in weather patterns in the West, contamination, and court decisions or other governmental actions restricting the use of water from the Colorado River, the California State Water Project, and/or pumping of groundwater;

- our ability to efficiently manage GSWC capital expenditures and operating and maintenance expenses within CPUC authorized levels and timely recover our costs through rates;

the impact of opposition to GSWC rate increases on our ability to recover our costs through rates, including costs associated with construction of pipelines to connect to alternative sources of water, new wells to replace wells that are no longer in service (or are otherwise inadequate to meet the needs of our customers), and other facilities to conserve or reclaim water;

the impact of opposition by GSWC customers to rate increases associated with the implementation of tiered rate structures as well as restrictions on water use mandated in California as a result of drought, which decreases adopted usage and increases customer rates;

the impact of condemnation actions on future GSWC revenues and other aspects of our business if we do not receive adequate compensation for the assets acquired, or recovery of all charges associated with the condemnation of these assets, and the impact on future revenues if we are no longer entitled to any portion of the revenues generated from these assets;

liabilities of GSWC associated with the inherent risks of damage to private property and injuries to employees and the general public if they should come into contact with electrical current or equipment, including through downed power lines or equipment malfunctions, or if safe construction and maintenance work sites are not maintained;

our ability to forecast the costs of maintaining GSWC's aging water and electric infrastructure;

our ability to recover increases in permitting costs and in costs associated with negotiating and complying with the terms of our franchise agreements with cities and counties and other demands made upon us by the cities and counties in which GSWC operates;

changes in accounting valuations and estimates, including changes resulting from our assessment of anticipated recovery of GSWC's regulatory assets, liabilities and revenues subject to refund or regulatory disallowances and the timing of such recovery, and the amounts set aside for uncollectible accounts receivable, inventory obsolescence, pensions and post-retirement liabilities, taxes and uninsured losses and claims, including general liability and workers' compensation claims;

changes in environmental laws, health and safety laws and water and wastewater quality requirements and increases in costs associated with complying with these laws and requirements, including costs associated with GSWC upgrading and building new water treatment plants, GSWC disposing of residuals from our water treatment plants, handling and storing hazardous chemicals, compliance monitoring activities and GSWC securing alternative supplies

of water when necessary;

our ability to obtain adequate, reliable and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our water and wastewater operations;

our ability to attract, retain, train, motivate, develop and transition key employees;

our ability to recover the costs associated with the contamination of GSWC's groundwater supplies from parties responsible for the contamination or through the ratemaking process, and the time and expense incurred by us in obtaining recovery of such costs;

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adequacy of our electric division's power supplies and the extent to which we can manage and respond to the volatility of electricity and natural gas prices;

our electric division's ability to comply with the CPUC's renewable energy procurement requirements;

changes in GSWC long-term customer demand due to changes in customer usage patterns as a result of conservation efforts, regulatory changes affecting demand such as mandatory restrictions on water use, new landscaping or irrigation requirements, recycling of water by customers or purchase of recycled water supplied by other parties, unanticipated population growth or decline, changes in climate conditions, general economic and financial market conditions and cost increases, which may impact our long-term operating revenues if we are unable to secure rate increases, if growth in the residential customer base does not occur to the extent necessary to offset the decline in per-customer residential usage or GSWC's customer base declines as a result of condemnation actions or the use of recycled or reclaimed water from other third-party sources;

changes in accounting treatment for regulated utilities;

effects of changes in or interpretations of tax laws, rates or policies;

changes in estimates used in ASUS's revenue recognition under the percentage of completion method of accounting for construction activities;

termination, in whole or in part, of one or more of our military utility privatization contracts to provide water and/or wastewater services at military bases for the convenience of the U.S. government or for default;

suspension or debarment for a period of time from contracting with the government due to violations of federal law or regulations in connection with military utility privatization activities;

delays by the U.S. government in making timely payments to ASUS for water and/or wastewater services at military bases as a result of fiscal uncertainties over the funding of the U.S. government or otherwise;

delays in obtaining redetermination of prices or economic price or equitable adjustments to our prices on one or more of our contracts to provide water and/or wastewater services at military bases;

disallowance of costs on any of our contracts to provide water and/or wastewater services at military bases as a result of audits, cost reviews or investigations by contracting agencies;

inaccurate assumptions used in preparing bids in our contracted services business or negotiating periodic price adjustments;

failure of the wastewater systems that we operate on military bases resulting in untreated wastewater or contaminants spilling into nearby properties, streams or rivers;

failure to comply with the terms of our military privatization contracts;

failure of any of our subcontractors to perform services for us in accordance with the terms of our military privatization contracts;

competition for new military privatization contracts;

issues with the implementation, maintenance or upgrading of our information technology systems;

general economic conditions which may impact our ability to recover infrastructure investments and operating costs from customers;

- explosions, fires, accidents, mechanical breakdowns, the disruption of information technology and telecommunication systems, human error and similar events that may occur while operating and maintaining water and electric systems in California or operating and maintaining water and wastewater systems on military bases under varying geographic conditions;

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the impact of storms, earthquakes, floods, mudslides, drought, wildfires, disease and similar natural disasters, or acts of terrorism or vandalism, that affect customer demand or that damage or disrupt facilities, operations or information technology systems owned by us, our customers or third parties on whom we rely;

potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption in connection with a cyber-attack or other cyber incident;

increases in the cost of obtaining insurance or in uninsured losses that may not be recovered in rates, including increases due to difficulties in obtaining insurance for certain risks, such as wildfires and earthquakes in California;

restrictive covenants in our debt instruments or changes to our credit ratings on current or future debt that may increase our financing costs or affect our ability to borrow or make payments on our debt; and

our ability to access capital markets and other sources of credit in a timely manner on acceptable terms.

Please consider our forward-looking statements in light of these risks as you read this Form 10-K. We qualify all of our forward-looking statements by these cautionary statements.

Item 1A. Risk Factors

You should carefully read the risks described below and other information in this Form 10-K in order to understand certain of the risks of our business.

Our business is heavily regulated and, as a result, decisions by regulatory agencies and changes in laws and regulations can significantly affect our business

GSWC's revenues depend substantially on the rates and fees it charges its customers and the ability to recover its costs on a timely basis, including the ability to recover the costs of purchased water, groundwater assessments, electricity, natural gas, chemicals, water treatment, security at water facilities and preventative maintenance and emergency repairs. Any delays by the CPUC in granting rate relief to cover increased operating and capital costs at our public utilities or delays in obtaining approval of our requests at ASUS for economic price or equitable adjustments or price redeterminations for contracted services from the U.S. government may adversely affect our financial performance. We may file for interim rates in California in situations where there may be delays in granting final rate relief during a general rate case proceeding. If the CPUC approves lower rates, the CPUC will require us to refund to customers the difference between the interim rates and the rates approved by the CPUC. Similarly, if the CPUC approves rates that are higher than the interim rates, the CPUC may authorize us to recover the difference between the interim rates and the final rates. Interim rates may also be granted by the U.S. government should there be delays in the price redetermination process.

Regulatory decisions affecting GSWC may also impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses, may overturn past decisions used in determining our revenues and expenses and could result in impairment charges and customer refunds. Management continually evaluates the anticipated recovery of regulatory assets, liabilities and revenues subject to refund and provides for allowances and reserves as deemed necessary. In the event that our assessment of the probability of recovery through the ratemaking process is incorrect, we will adjust the associated regulatory asset or liability to reflect the change in our assessment or any regulatory disallowances. A change in our evaluation of the probability of recovery of regulatory assets or a regulatory disallowance of all or a portion of our costs could have a material adverse effect on our financial results.

We are also, in some cases, required to estimate future expenses and, in others, we are required to incur the expense before recovering costs. As a result, our revenues and earnings may fluctuate depending on the accuracy of our estimates, the timing of our investments or expenses or other factors. If expenses increase significantly over a short period of time, we may experience delays in recovery of these expenses, the inability to recover carrying costs for these expenses and increased risks of regulatory disallowances or write-offs.

Regulatory agencies may also change their rules and policies which may adversely affect our profitability and cash flows. Changes in policies of the U.S. government may also adversely affect one or more of our Military Utility Privatization Subsidiaries. In certain circumstances, the U.S. government may be unwilling or unable to appropriate funds to pay costs mandated by changes in rules and policies of federal or state regulatory agencies. The U.S. government may disagree with the

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increases that we request and may delay approval of requests for equitable adjustment or redetermination of prices which could adversely affect our anticipated rates of return.

We may also be subject to fines or penalties if a regulatory agency, including the U.S. government, determines that we have failed to comply with laws, regulations or orders applicable to our businesses, unless we successfully appeal such an adverse determination. Regulatory agencies may also disallow certain costs if audit findings determine that we have failed to comply with our policies and procedures for procurement or other practices.

Our costs involved in maintaining water quality and complying with environmental regulation have increased and are expected to continue to increase

Our capital and operating costs at GSWC can increase substantially as a result of increases in environmental regulation arising from increases in the cost of upgrading and building new water treatment plants, disposing of residuals from our water treatment plants, compliance-monitoring activities and securing alternative supplies when necessary. GSWC may be able to recover these costs through the ratemaking process. We may also be able to recover these costs under settlement and contractual arrangements.

We may be subject to financial losses, penalties and other liabilities if we fail to maintain safe work sites. Our safety record is critical to our reputation. We maintain health and safety standards to protect our employees, customers, vendors and the public. Although we intend to adhere to such health and safety standards, it is unlikely that we will be able to avoid accidents at all times.

Our business sites, including construction and maintenance sites, often put our employees and others in close proximity with large pieces of equipment, moving vehicles, pressurized water, chemicals and other regulated materials. On many sites we are responsible for safety and, accordingly, must implement safety procedures. If we fail to implement such procedures or if the procedures we implement are ineffective or are not followed by our employees or others, our employees and others may be injured or die. Unsafe work sites also have the potential to increase our operating costs. Any of the foregoing could result in financial losses, which could have a material adverse impact on our business, financial condition, and results of operations.

In addition, our operations can involve the handling and storage of hazardous chemicals which, if improperly handled, stored or disposed of, could subject us to penalties or other liabilities. We are also subject to regulations dealing with occupational health and safety. Although we maintain functional employee groups whose primary purpose is to ensure that we implement effective health, safety, and environmental work procedures throughout our organization, including construction sites and maintenance sites, a failure to comply with such regulations could subject us to liability.

We may sustain losses that exceed or are excluded from our insurance coverage or for which we are not insured

We are, from time to time, parties to legal or regulatory proceedings. These proceedings may pertain to regulatory investigations, employment matters or other disputes. Management periodically reviews its assessment of the probable outcome of these proceedings, the costs and expenses reasonably expected to be incurred, and the availability and extent of insurance coverage. On the basis of this review, management establishes reserves for such matters. We may, however, from time to time be required to pay fines, penalties or damages that exceed our insurance coverage and/or reserves if our estimate of the probable outcome of such proceedings proves to be inaccurate.

We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities. However, our insurance policies contain exclusions and other limitations that may not cover our potential liabilities. Generally, our insurance policies cover property, workers' compensation, employer liability, general liability and automobile liability. Each policy includes deductibles or self-insured retentions and policy limits for covered claims. As a result, we may sustain losses that exceed or that are excluded from our insurance coverage or for

which we are not insured.

We have experienced increased costs and difficulties in obtaining insurance coverage for wildfires that could impact or potentially arise from BVES's ordinary operations. Uninsured losses and increases in the cost of insurance may not be recoverable in customer rates. A loss which is not insured or not fully insured or cannot be recovered in customer rates could materially affect GSWC's financial condition and results of operations.

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Additional Risks Associated with our Public Utility Operations

Our operating costs may increase as a result of groundwater contamination

Our operations can be impacted by groundwater contamination in certain service territories. Historically, we have taken a number of steps to address contamination, including the removal of wells from service, decreasing the amount of groundwater pumped from wells in order to facilitate remediation of plumes of contaminated water, constructing water treatment facilities and securing alternative sources of supply from other areas not affected by the contamination. In emergency situations, we have supplied our customers with bottled water until the emergency situation has been resolved.

Our ability to recover these types of costs depends upon a variety of factors, including approval of rate increases, the willingness of potentially responsible parties to settle litigation and otherwise address the contamination and the extent and magnitude of the contamination. We may recover costs from certain third parties that may be responsible, or potentially responsible, for groundwater contamination. However, we often experience delays in obtaining recovery of these costs and incur additional costs associated with seeking recovery from responsible or potentially responsible parties which may adversely impact our liquidity. In some events we may be unable to recover all of these costs from third parties due to the inability to identify the potentially responsible parties, the lack of financial resources of responsible parties or the high litigation costs associated with obtaining recovery from responsible or potentially responsible parties.

We can give no assurance regarding the adequacy of any such recovery to offset the costs associated with contamination or the cost of recovery of any legal costs. To date, the CPUC has permitted us to establish memorandum accounts for potential recovery of these types of costs when they arise.

Management believes that rate recovery, proper insurance coverage and reserves are in place to appropriately manage these types of contamination issues. However, such issues, if ultimately resolved unfavorably to us, could, in the aggregate, have a material adverse effect on our results of operations and financial condition.

The adequacy of our water supplies depends upon weather and a variety of other uncontrollable factors

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

- * rainfall, basin replenishment, flood control, snow pack levels in California and the West, reservoir levels and availability of reservoir storage;
- * availability of Colorado River water and imported water from the State Water Project;
- * the amount of usable water stored in reservoirs and groundwater basins;
- * the amount of water used by our customers and others;
- * water quality;
- * legal limitations on production, diversion, storage, conveyance and use; and
- * climate change.

The extended California drought and changes in weather patterns in the West and population growth in California cause increased stress on surface water supplies and groundwater basins. In addition, low or no allocations of water from the State Water Project and court-ordered pumping restrictions on water obtained from the Sacramento-San Joaquin Delta decrease or eliminate the amount of water Metropolitan Water District of Southern California ("MWD") and other state water contractors are able to import from northern California.

We have implemented tiered rates and other practices in order to encourage water conservation. We have also implemented programs to assist customers in complying with water usage reductions. Over the long term, we are

acting to secure additional supplies from desalination and increase use of reclaimed water, where appropriate and feasible. We cannot predict the extent to which these efforts to reduce stress on our water supplies will be successful or sustainable, or the extent to which these efforts will enable us to continue to satisfy all of the water needs of our customers.

Water shortages at GSWC may:

- *adversely affect our supply mix, for instance, by causing increased reliance upon more expensive water sources;
- adversely affect our operating costs, for instance, by increasing the cost of producing water from more highly
- *contaminated aquifers or requiring us to transport water over longer distances, truck water to water systems or adopt other emergency measures to enable us to continue to provide water service to our customers;

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result in an increase in our capital expenditures over the long term, for example, by requiring future construction of

- * pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of our customers, and other facilities to conserve or reclaim water;
- adversely affect the volume of water sold as a result of such factors as mandatory or voluntary conservation efforts
- * by customers, changes in customer conservation patterns, recycling of water by customers and imposition of new regulations impacting such things as landscaping and irrigation patterns;
- * adversely affect aesthetic water quality if we are unable to flush our water systems as frequently due to water shortages or drought restrictions; and
- * result in customer dissatisfaction and harm to our reputation if water service is reduced, interrupted or otherwise adversely affected as a result of the California drought, water contamination or other causes.

Our liquidity may be adversely affected by changes in water supply costs

We obtain our water supplies for GSWC from a variety of sources, which vary among our water systems. Certain systems obtain all of their supply from water that is pumped from aquifers within our service areas; some systems purchase all of the supply from wholesale suppliers; some systems obtain the supply from treating surface water sources; and other systems obtain the supply from a combination of wells, surface water sources and/or wholesale suppliers. The cost of obtaining these supplies varies, and overall costs can be impacted as use within a system varies from time to time. As a result, our cost of providing, distributing and treating water for our customers' use can vary significantly.

Furthermore, imported water wholesalers, such as MWD, may not always have an adequate supply of water to sell to us. Wholesale water suppliers may increase their prices for water delivered to us based on factors that affect their operating costs. Purchased water rate increases are beyond our control.

GSWC has implemented a modified supply cost balancing account ("MCBA") to track and recover costs from supply mix changes and rate changes by wholesale suppliers, as authorized by the CPUC. However, cash flows from operations can be significantly affected since much of the balance we recognize in the MCBA is collected from or refunded to customers primarily through surcharges or surcredits, respectively, generally over twelve to eighteen month periods.

Our liquidity and earnings may be adversely affected by maintenance costs

Some of our infrastructure in California is more than fifty years old. We have experienced leaks and mechanical problems in some of these older systems. In addition, well and pump maintenance expenses are affected by labor and material costs and more stringent environmental regulations. These costs can increase substantially and unexpectedly.

We include estimated increases in maintenance costs for future years in each general rate case filed by GSWC for possible recovery. We may not recover overages from amounts estimated in rates.

Our liquidity and earnings may be adversely affected by our conservation efforts

Our water utility business is heavily dependent upon revenue generated from rates charged to our residential customers based on the volume of water used. The rates we charge for water are regulated by the CPUC and may not be adequately adjusted to reflect changes in demand. Declining usage also negatively impacts our long-term operating revenues if we are unable to secure rate increases or if growth in the residential customer base does not occur to the extent necessary to offset per-customer residential-usage decline.

Conservation by all customer classes at GSWC is a top priority. However, customer conservation will result in lower volumes of water sold. We may experience a decline in per-residential-customer water usage due to factors such as:

- * conservation efforts to reduce costs;
- * drought conditions resulting in additional water conservation;
- * the use of more efficient household fixtures and appliances by consumers to save water;
- * voluntary or mandatory changes in landscaping and irrigation patterns;
- * recycling of water by our customers; and
- * regulation of groundwater rights.

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These types of changes may result in permanent decreases in demand even if our water supplies are sufficient to meet higher levels of demand after a drought ends. In addition, governmental restrictions on water usage during drought conditions may result in a decreased demand for our water, even if our sources of supply are sufficient to serve our customers during such drought conditions.

We implemented a CPUC-approved water-revenue adjustment mechanism ("WRAM") at GSWC, which has the effect of reducing the adverse impact of our customers' conservation efforts on revenues. However, cash flows from operations can be significantly affected since much of the balance we recognize in the WRAM account is collected from or refunded to customers generally over a twelve, eighteen or thirty-six month period.

Our earnings may be affected by weather during different seasons

The demand for water and electricity varies by season. For instance, there can be a higher level of water consumption during the third quarter of each year when weather in California tends to be hot and dry. During unusually wet weather, our customers generally use less water. The CPUC-approved WRAM helps mitigate fluctuations in revenues due to changes in water consumption by our customers in California.

The demand for electricity in our electric customer service area is greatly affected by winter snow levels. An increase in winter snow levels reduces the use of snowmaking machines at ski resorts in the Big Bear area and, as a result, reduces our electric revenues. Likewise, unseasonably warm weather during a skiing season may result in temperatures too high for snowmaking conditions, which also reduces our electric revenues. GSWC has implemented a CPUC-approved base-revenue-requirement adjustment mechanism for our electric business which helps mitigate fluctuations in the revenues of our electric business due to changes in the amount of electricity used by GSWC's electric customers.

Our liquidity may be adversely affected by increases in electricity and natural gas prices in California

We generally purchase most of the electric energy sold to customers in our electric customer service area from others under purchased power contracts. In addition to purchased power contracts, we purchase additional energy from the spot market to meet peak demand and following the expiration of purchased power contracts if there are delays in obtaining CPUC authorization of new purchase power contracts. We may sell surplus power to the spot market during times of reduced energy demand. As a result, our cash flows may be affected by increases in spot market prices of electricity purchased and decreases in spot market prices for electricity sold. However, GSWC has implemented supply-cost balancing accounts, as approved by the CPUC, to mitigate fluctuations in supply costs. We also operate a natural-gas-fueled 8.4 megawatt generator in our electric service area.

Unexpected generator downtime or a failure to perform by any of the counterparties to our electric and natural gas purchase contracts could further increase our exposure to fluctuating natural gas and electricity prices.

Changes in electricity prices also affect the unrealized gains and losses on our block forward purchased power contracts that qualify as derivative instruments since we adjust the asset or liability on these contracts to reflect the fair market value of the contracts at the end of each month. The CPUC has authorized us to establish a memorandum account to track the changes in the fair market value of our purchased power contracts. As a result, unrealized gains and losses on these types of purchased power contracts do not impact earnings.

We may not be able to procure sufficient renewable energy resources to comply with CPUC rules

We are required to procure a portion of our electricity from renewable energy resources to meet the CPUC's renewable procurement requirements. We have an agreement with a third party to purchase renewable energy credits which we

believe allows us to meet these requirements through 2023. In the event that the third party fails to perform in accordance with the terms of the agreement, we may not be able to obtain sufficient resources to meet the renewable procurement requirements. We may be subject to fines and penalties by the CPUC if it determines that we are not in compliance with the renewable resource procurement rules.

Our assets are subject to condemnation

Municipalities and other governmental subdivisions may, in certain circumstances, seek to acquire certain of our assets through eminent domain proceedings. It is generally our practice to contest these proceedings, which may be costly and may temporarily divert the attention of management from the operation of our business. If a municipality or other governmental subdivision succeeds in acquiring our assets, there is a risk that we will not receive adequate compensation for the assets

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acquired or be able to recover all charges associated with the condemnation of these assets. In addition, we would no longer be entitled to any portion of revenue generated from the use of such assets.

Our costs of obtaining and complying with the terms of franchise agreements are increasing

Cities and counties in which GSWC operates have granted GSWC franchises to construct, maintain and use pipes and appurtenances in public streets and rights of way. The costs of obtaining, renewing and complying with the terms of these franchise agreements have been increasing as cities and counties attempt to regulate GSWC's operations within the boundaries of the city or unincorporated areas of the counties in which GSWC operates. Cities and counties have also been attempting to impose new fees on GSWC's operations, including pipeline abandonment fees and road-cut or other types of capital improvement fees. At the same time, there is increasing opposition from consumer groups to rate increases that may be necessary to compensate GSWC for the increased costs of regulation by local governments. These trends may adversely affect GSWC's ability to recover its costs of providing water service in rates and to efficiently manage capital expenditures and operating and maintenance expenses within CPUC authorized levels.

The generation, transmission and distribution of electricity are dangerous and involve inherent risks of damage to private property and injury to employees and the general public

Electricity is dangerous for employees and the general public should they come in contact with electrical current or equipment, including through downed power lines or equipment malfunctions. Injuries and property damage caused by such events may subject GSWC to significant liabilities that may not be covered or fully covered by insurance. Additionally, the CPUC has delegated to its staff the authority to issue citations, which carry a fine of \$50,000 per-violation per day, to electric utilities subject to its jurisdiction for violations of safety rules found in statutes, regulations, and the General Orders of the CPUC which could also materially affect GSWC's liquidity and results of operations.

Additional Risks Associated with our Contracted Services Operations

We derive revenues from contract operations primarily from the operation and maintenance of water and/or wastewater systems at military bases and the construction of water and wastewater infrastructure on these bases (including renewal and replacement of these systems). As a result, these operations are subject to risks that are different from those of our public utility operations.

Our 50-year contracts for servicing military bases create certain risks that are different from our public utility operations

We have entered into contracts to provide water and/or wastewater services at military bases pursuant to 50-year contracts, subject to termination, in whole or in part, for the convenience of the U.S. government. In addition, the U.S. government may stop work under the terms of one or more of the contracts, delay performance of our obligations under the contracts or modify the contracts at its convenience.

Our contract pricing was based on a number of assumptions, including assumptions about prices and availability of labor, equipment and materials. We may be unable to recover all costs if any of these assumptions are inaccurate or if all costs incurred in connection with performing the work were not considered. Our contracts are also subject to periodic price adjustments at the time of price redetermination, in connection with economic price adjustments or requests for equitable adjustment, or other changes permitted by the terms of the contracts. The contract price for each of these contracts is subject to either (i) redetermination every three years following the initial two years of the contracts or (ii) economic price adjustments on an annual basis. Prices are also subject to equitable adjustment based upon changes in circumstances, laws or regulations and service-requirement changes with respect to wages and fringe

benefits to the extent provided in each of the contracts.

We are required to record all costs under these types of contracts as they are incurred. As a result, we may record losses associated with unanticipated conditions, higher than anticipated infrastructure levels and emergency work at the time such expenses occur. We recognize additional revenue for such work as, and to the extent that, our price redeterminations, economic price adjustments and/or requests for equitable adjustments are approved. Delays in obtaining approval of price redeterminations, economic price adjustments and/or equitable adjustments can negatively impact our results of operations and cash flows.

Certain payments under these contracts are subject to appropriations by Congress. We may experience delays in receiving payment or delays in redetermination of prices or other price adjustments due to canceled or delayed appropriations specific to our projects or reductions in government spending for the military generally or military-base operations specifically.

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Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures for the military generally or military-base operations specifically.

Management also reviews goodwill for impairment at least annually. ASUS has \$1.1 million of goodwill which may be at risk for potential impairment if requested price redeterminations, economic price adjustments and/or equitable adjustments are not granted.

Risks associated with the collection of wastewater are different from those of our water distribution operations

The wastewater-collection-system operations of our subsidiaries providing wastewater services on military bases are subject to substantial regulation and involve significant environmental risks. If collection or sewage systems fail, overflow or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages. The cost of addressing such damages may not be recoverable. This risk is most acute during periods of substantial rainfall or flooding, which are common causes of sewer overflows and system failures. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. In the event that we are deemed liable for any damage caused by overflows, our losses may not be recoverable under our contracts with the U.S. government or covered by insurance policies. We may also find it difficult to secure insurance for this business in the future at acceptable rates.

We may have responsibility for water quality at the military bases we serve

While it is the responsibility of the U.S. government to provide the source water supply to meet the Military Utility Privatization Subsidiaries' water distribution system requirements under their contracts, the Military Utility Privatization Subsidiaries, as the water system permit holders for most of the bases they serve, are responsible for ensuring the continued compliance of the provided source of supply with all Federal, State and local regulations. We believe, however, that the terms of the contracts between the Military Utility Privatization Subsidiaries and the U.S. government provide the opportunity for us to recover costs incurred in the treatment or remediation of any quality issue that arises from the source of water supply.

Our contracts for the construction of infrastructure improvements on military bases create risks that are different from those of our operations and maintenance activities

We have entered into contract modifications with the U.S. government and agreements with third parties for the construction of new water and/or wastewater infrastructure at the military bases on which we operate. Most of these contracts are firm fixed-price contracts. Under firm fixed-price contracts, we will benefit from cost savings, but are generally unable (except for changes in scope or circumstances approved by the U.S. government or third party) to recover any cost overruns to the approved contract price. Under most circumstances, the U.S. government or third party has approved increased-cost change orders due to changes in scope of work performed.

We generally recognize revenues from these types of contracts using the percentage-of-completion method of accounting. This accounting practice results in our recognizing contract revenues and earnings ratably over the contract term in proportion to contract costs incurred or the physical completion of the construction projects. The earnings or losses recognized on individual contracts are based on periodic estimates of contract revenues, costs and profitability as these construction projects progress.

We establish prices for these types of firm fixed-price contracts and the overall 50-year contracts taken as a whole, based, in part, on cost estimates that are subject to a number of assumptions, including assumptions regarding future economic conditions. If these estimates prove inaccurate or circumstances change, cost overruns could have a material adverse effect on our contracted business operations and results of operations.

We may be adversely affected by disputes with the U.S. government regarding our performance of contracted services on military bases

We are periodically audited or reviewed by the Defense Contract Auditing Agency ("DCAA") and/or the Defense Contract Management Agency ("DCMA") for compliance with federal acquisition regulations, cost-accounting standards and other laws, regulations and standards that are not applicable to the operations of GSWC. During the course of these audits/reviews, the DCAA or DCMA may question our incurred project costs or the manner in which we have accounted for such costs and recommend to our U.S. government administrative contracting officer that such costs be disallowed.

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If there is a dispute with the U.S. government regarding performance under these contracts or the amounts owed to us, the U.S. government may delay, reject or withhold payment, delay price redeterminations or assert its right to offset damages against amounts owed to us. If we are unable to collect amounts owed to us on a timely basis or the U.S. government asserts its offset rights, profits and cash flows could be adversely affected.

If we fail to comply with the terms of one or more of our U.S. government contracts, other agreements with the U.S. government or U.S. government statutes and regulations, we could also be suspended or barred from future U.S. government contracts for a period of time and be subject to possible damages, fines and penalties as well as damage to our reputation in the water and wastewater industry.

We depend, to some extent, upon subcontractors to assist us in the performance of contracted services on military bases

We rely, to some extent, on subcontractors to assist us in the operation and maintenance of the water and wastewater systems at military bases. The failure of any of these subcontractors to perform services for us in accordance with the terms of our contracts with the U.S. government could result in the termination of our contract to provide water and/or wastewater services at the affected base(s), a loss of revenues or increases in costs to correct a subcontractor's performance failures.

We are also required to make a good faith effort to achieve our small business subcontracting plan goals pursuant to U.S. government regulations. If we fail to use good faith efforts to meet these goals, the U.S. government may assess damages against us at the end of the contract. The U.S. government has the right to offset claimed damages against any amounts owed to us.

We also rely on third-party manufacturers, as well as third-party subcontractors, to complete our construction projects. To the extent that we cannot engage subcontractors or acquire equipment or materials, our ability to complete a project in a timely fashion or at a profit may be impaired. If the amount of costs we incur for these projects exceeds the amount we have estimated in our bid, we could experience reduced profits or losses in the performance of these contracts. In addition, if a subcontractor or manufacturer is unable to deliver its services, equipment or materials according to the negotiated terms for any reason, including the deterioration of its financial condition, we may be required to purchase the services, equipment or materials from another source at a higher price. This may reduce the profit to be realized or result in a loss on a project for which the services, equipment or materials were needed.

If these subcontractors fail to perform services to be provided to us or fail to provide us with the proper equipment or materials, we may be penalized for their failure to perform; however, our contracts with these subcontractors include certain protective provisions, which may include the assessment of liquidated damages. We mitigate these risks by requiring our subcontractors, as appropriate, to obtain performance bonds and to compensate us for any penalties we may be required to pay as a result of their failure to perform.

Our earnings may be affected, to some extent, by weather during different seasons

Seasonal weather conditions, such as hurricanes, heavy rainfall or significant winter storms, occasionally cause temporary office closures and/or result in temporary halts to construction activity at military bases. To the extent that our construction activities are impeded by these events, we will experience a delay in recognizing revenues from these construction projects.

We continue to incur costs associated with the expansion of our contract activities

We continue to incur additional costs in connection with the expansion of our contract operations associated with the preparation of bids for new contract operations on prospective and existing military bases. Our ability to recover these costs and to earn a profit on our contract operations will depend upon the extent to which we are successful in obtaining new contracts and recovering these costs and other costs from new contract revenues.

We face competition for new military privatization contracts

An important part of our growth strategy is the expansion of our contracted services business through new contract awards to serve additional military bases for the U.S. government. ASUS competes with other regulated utilities, municipalities, and other entities for these contracts.

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Other Risks

The accuracy of our judgments and estimates about financial and accounting matters will impact our operating results and financial condition

The quality and accuracy of estimates and judgments used have an impact on our operating results and financial condition. If our estimates are not accurate, we will be required to make an adjustment in a future period. We make certain estimates and judgments in preparing our financial statements regarding, among others:

- *timing of recovering WRAM and MCBA regulatory assets;
- *amounts to set aside for uncollectible accounts receivable, inventory obsolescence and uninsured losses;
- *our legal exposure and the appropriate accrual for claims, including general liability and workers' compensation claims;
- *future costs and assumptions for pensions and other post-retirement benefits;
- *regulatory recovery of deferred items; and
- *possible tax uncertainties.

Our business requires significant capital expenditures

The utility business is capital intensive. We spend significant sums of money for additions to, or replacement of, our property, plant and equipment at our water and electric utilities. We obtain funds for these capital projects from operations, contributions by developers and others and advances from developers (which are repaid over a period of time at no interest). We also periodically borrow money or issue equity for these purposes. In addition, we have a syndicated bank credit facility that is partially used for these purposes. We cannot provide assurance that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to earn a reasonable rate of return.

Our Military Utility Privatization Subsidiaries providing water and wastewater services on military bases also expect to incur significant capital expenditures. To the extent that the U.S. government does not reimburse us for these expenditures as the work is performed or completed, the U.S. government will repay us over time.

We may be adversely impacted by economic conditions

Access to external financing on reasonable terms depends, in part, on conditions in the debt and equity markets. When business and market conditions deteriorate, we may no longer have access to the capital markets on reasonable terms. Our ability to obtain funds is dependent upon our ability to access the capital markets by issuing debt or equity to third parties or obtaining funds from our revolving credit facility. In the event of financial turmoil affecting the banking system and financial markets, consolidation of the financial services industry, significant financial service institution failures or our inability to renew or replace our existing revolving credit facility on favorable terms, it may become necessary for us to seek funds from other sources on less favorable terms.

Market conditions and demographic changes may adversely impact the value of our benefit plan assets and liabilities. Market factors can affect assumptions we use in determining funding requirements with respect to our pension and other postretirement benefit plans. For example, a relatively modest change in our assumptions regarding discount rates can materially affect our calculation of funding requirements. To the extent that market data compels us to reduce the discount rate used in our assumptions, our benefit obligations could materially increase, which could adversely affect our financial position and cash flows. Further, changes in demographics, such as increases in life expectancy assumptions may also increase the funding requirements of our obligations related to the pension and other postretirement benefit plans.

Market conditions also affect the values of the assets that are held in trust to satisfy significant future obligations under our pension and other postretirement benefit plans. These assets are subject to market fluctuations, which may

cause investment returns to fall below our projected rates of return. A decline in the market value of our pension and other postretirement benefit plan assets will increase the funding requirements under these plans if future returns on these assets are insufficient to offset the decline in value. Future increases in pension and other postretirement costs as a result of the reduced value of plan assets may not be fully recoverable in rates, and our results of operations and financial position could be

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negatively affected. These risks are mitigated to some extent by the two-way pension balancing account authorized by the CPUC which permits us to track differences between forecasted annual pension expense adopted in rates and actual pension expenses for future recovery or refund to customers.

Payment of our debt may be accelerated if we fail to comply with restrictive covenants in our debt agreements

Our failure to comply with restrictive covenants in our debt agreements could result in an event of default. If the default is not cured or waived, we may be required to repay or refinance this debt before it becomes due. Even if we are able to obtain waivers from our creditors, we may only be able to do so on unfavorable terms.

The price of our Common Shares may be volatile and may be affected by market conditions beyond our control

The trading price of our Common Shares may fluctuate in the future because of the volatility of the stock market and a variety of other factors, many of which are beyond our control. Factors that could cause fluctuations in the trading price of our Common Shares include: regulatory developments; general economic conditions and trends; price and volume fluctuations in the overall stock market from time to time; actual or anticipated changes or fluctuations in our results of operations; actual or anticipated changes in the expectations of investors or securities analysts; actual or anticipated developments in other utilities' businesses or the competitive landscape generally; litigation involving us or our industry; and major catastrophic events or sales of large blocks of our stock.

AWR is a holding company that depends on cash flow from its subsidiaries to meet its financial obligations and to pay dividends on its Common Shares

As a holding company, our subsidiaries conduct substantially all operations and our only significant assets are investments in our subsidiaries. This means that we are dependent on distributions of funds from our subsidiaries to meet our debt service obligations and to pay dividends on our Common Shares.

Our subsidiaries are separate and distinct legal entities and generally have no obligation to pay any amounts due on our credit facility. Our subsidiaries only pay dividends if and when declared by the subsidiary board. Moreover, GSWC is obligated to give first priority to its own capital requirements and to maintain a capital structure consistent with that determined to be reasonable by the CPUC in its most recent decision on capital structure in order that customers not be adversely affected by the holding company structure. Furthermore, our right to receive cash or other assets in the unlikely event of liquidation or reorganization of any of our subsidiaries is generally subject to the prior claims of creditors of that subsidiary. If we are unable to obtain funds from a subsidiary in a timely manner, we may be unable to meet our financial obligations, make additional investments or pay dividends.

Failure to attract, retain, train, motivate, develop and transition key employees could adversely affect our business

In order to be successful, we must attract, retain, train, motivate, and develop key employees, including those in managerial, operational, financial, business-development and information-technology support positions. Our regulated business and contracted services operations are complex. Attracting and retaining high quality staff allows us to minimize the cost of providing quality service. In order to attract and retain key employees in a competitive marketplace, we must provide a competitive compensation package and be able to effectively recruit qualified candidates. The failure to successfully hire key employees or the loss of a material number of key employees could have a significant impact on the quality of our operations in the short term. Further, changes in our management team may be disruptive to our business, and any failure to successfully transition key new hires or promoted employees could adversely affect our business and results of operations.

We must successfully maintain and/or upgrade our information technology systems as we are increasingly dependent on the continuous and reliable operation of these systems

We rely on various information technology systems to manage our operations. Such systems require periodic modifications, upgrades and/or replacement, which subject us to inherent costs and risks including potential disruption of our internal control structure, substantial capital expenditures, additional administration and operating expenses, retention of sufficiently skilled personnel to implement and operate the new systems, and other risks and costs of delays or difficulties in transitioning to new systems or of integrating new systems into our current systems. In addition, the difficulties with implementing new technology systems may cause disruptions in our business operations and have an adverse effect on our business and operations, if not anticipated and appropriately mitigated.

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We rely on our computer, information and communications technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and the monitoring and operation of our treatment, storage and pumping facilities. Our computer and communications systems and operations could be damaged or interrupted by weather, natural disasters, telecommunications failures or acts of war or terrorism or similar events or disruptions. Any of these or other events could cause system interruption, delays and loss of critical data, or delay or prevent operations and adversely affect our financial results.

Security risks, data protection breaches and cyber-attacks could disrupt our internal operations, and any such disruption could increase our expenses, damage our reputation and adversely affect our stock price

There have been an increasing number of cyber-attacks on companies around the world, which have caused operational failures or compromised sensitive corporate or customer data. These attacks have occurred over the internet, through malware, viruses or attachments to e-mails or through persons inside the organization or with access to systems inside the organization. Although we do not believe that our systems are at a materially greater risk of cyber security attacks than other similar organizations, our information technology systems remain vulnerable to damage or interruption from:

- * computer viruses;
- * malware;
- * hacking; and
- * denial of service actions.

We have implemented security measures and will continue to devote significant resources to address any security vulnerabilities in an effort to prevent cyber-attacks. Despite our efforts, we cannot be assured that a cyber-attack will not cause water, wastewater or electric system problems, disrupt service to our customers, compromise important data or systems or result in unintended release of customer or employee information. Moreover, if a computer security breach affects our systems or results in the unauthorized release of sensitive data, our reputation could be materially damaged. We could also be exposed to a risk of loss or litigation and possible liability. In addition, pursuant to U.S. government regulations regarding cyber-security of government contractors, we might be subject to fines, penalties or other actions, including debarment, with respect to current contracts or with respect to future contract opportunities.

Our operations are geographically concentrated in California

Although we operate water and wastewater facilities in a number of states, our water and electric operations are concentrated in California, particularly Southern California. As a result, our financial results are largely subject to political, water supply, labor, utility cost and regulatory risks, economic conditions, natural disasters and other risks affecting California.

We operate in areas subject to natural disasters

We operate in areas that are prone to earthquakes, fires, mudslides, hurricanes, tornadoes, flooding or other natural disasters. While we maintain insurance policies to help reduce our financial exposure, a significant seismic event in Southern California, where GSWC's operations are concentrated, or other natural disasters in any of the areas that we serve could adversely impact our ability to deliver water and electricity or provide wastewater service and adversely affect our costs of operations. With respect to GSWC, the CPUC has historically allowed utilities to establish a catastrophic event memorandum account to potentially recover such costs.

Our operations may be the target of terrorist activities

Terrorists could seek to disrupt service to our customers by targeting our assets. We have invested in additional security for facilities throughout our regulated service areas to mitigate the risks of terrorist activities. We also may be prevented from providing water and/or wastewater services at the military bases we serve in times of military crisis affecting these bases.

The final determination of our income tax liability may be materially different from our income tax provision

Significant judgment is required in determining our provision for income taxes. Our calculation of the provision for income taxes is subject to our interpretation of applicable business tax laws in the jurisdictions in which we file. In addition, our income tax returns are subject to periodic examination by the Internal Revenue Service and other taxing authorities.

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In December 2014, the Company changed its tax method of accounting to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for tax purposes. As a result of the change, which included a cumulative adjustment for 2013 and prior years, the Company deducted a significant amount of asset costs that consisted primarily of water mains and connections. Our determination of costs that qualify as a capital asset versus an immediate tax deduction for utility asset improvements is subject to subsequent adjustment arising from review by taxing authorities, and may impact the deductions that have been taken on recently filed income tax returns. Although we believe our income tax estimates are appropriate, there is no assurance that the final determination of our current taxes payable will not be materially different, either higher or lower, from the amounts reflected in our financial statements. In the event we are assessed additional income taxes, our financial condition and cash flows could be adversely affected.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Water Properties

As of December 31, 2016, GSWC's physical properties consisted of water transmission and distribution systems which included 2,825 miles of pipeline together with services, meters and fire hydrants and approximately 425 parcels of land, generally less than one acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities, including four surface water treatment plants. GSWC also has franchises, easements and other rights of way for the purpose of accessing wells and tanks and constructing and using pipes and appurtenances for transmitting and distributing water. All of GSWC's properties are located in California.

As of December 31, 2016, GSWC owned 247 wells, of which 203 are active with an aggregate production capacity of approximately 208 million gallons per day. GSWC has 64 connections to the water distribution facilities of the MWD and other municipal water agencies. GSWC's storage reservoirs and tanks have an aggregate capacity of approximately 115.8 million gallons. GSWC owns no dams. The following table provides information regarding the water utility plant of GSWC:

Pumps	Distribution Facilities	Reservoirs
WellBooster	Mains*Services	Hydrants TankCapacity*
247	399 2,825 261,059	26,065 147 115,765 (1)

* Reservoir capacity is measured in thousands of gallons. Mains are in miles.

(1) GSWC has additional capacity in its Bay Point system through an exclusive capacity right to use 4.4 million gallons from a treatment plant owned by the Contra Costa Water District. GSWC also has additional reservoir capacity through an exclusive right to use an eight-million-gallon reservoir, one-half of another eight-million-gallon reservoir, and one-half of a treatment plant's capacity, all owned by the Three Valleys Municipal Water District, to serve the cities of Claremont and San Dimas.

Electric Properties

GSWC's electric properties are located in the Big Bear area of San Bernardino County, California. As of December 31, 2016, GSWC owned and operated approximately 87.8 miles of overhead 34.5 kilovolt (kv) transmission lines, 2.7 miles of underground 34.5 kv transmission lines, 488.6 miles of 4.16 kv or 2.4 kv distribution lines, 89.1 miles of underground cable, 13 sub-stations and a natural gas-fueled 8.4 MW peaking generation facility. GSWC also has franchises, easements and other rights of way for the purpose of constructing and using poles, wires and other appurtenances for transmitting electricity.

Adjudicated and Other Water Rights

GSWC owns groundwater and surface water rights in California. Groundwater rights are further subject to classification as either adjudicated or unadjudicated rights. Adjudicated rights have been subjected to comprehensive litigation in the courts, are typically quantified and are actively managed for optimization and sustainability of the resource. Unadjudicated rights are subject to further regulation by the State Water Resources Control Board ("SWRCB") and the California Department of Water Resources. Surface water rights are quantified and managed by the State Water Resources Control Board, unless the surface water rights originated prior to 1914. As of December 31, 2016, GSWC had adjudicated groundwater rights and surface water rights of 74,332 and 11,335 acre feet per year, respectively. GSWC also has a number of unadjudicated groundwater rights, which have not been quantified, but are typically measured by historical usage.

Office Buildings

GSWC owns its general headquarters facilities in San Dimas, California. GSWC also owns and leases certain facilities throughout California that house district and customer service offices. ASUS leases office facilities in Georgia, Virginia and North Carolina. ASUS terminated an office lease in California in January 2017. TUS and ECUS rent temporary service center facilities in Maryland and Florida, respectively, pending the completion of facilities being or to be constructed at those locations. FBWS has a ten-year, renewable, no-cost license for use of space in a U.S. government building at Fort Bliss as a service center. PSUS, ODUS and ONUS own service centers in South Carolina, Virginia and North Carolina, respectively.

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Mortgage and Other Liens

As of December 31, 2016, neither AWR, GSWC, nor ASUS, or any of its subsidiaries, had any mortgage debt or liens securing indebtedness outstanding.

Under the terms of certain debt instruments, AWR and GSWC are prohibited from issuing any secured debt, without providing equal and ratable security to the holders of this existing debt.

Condemnation of Properties

The laws of the state of California provide for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation, where doing so is necessary and in the public interest. In addition, these laws provide that the owner of utility property (i) may contest whether the condemnation is actually necessary and in the public interest, and (ii) is entitled to receive the fair market value of its property if the property is ultimately taken.

Environmental Clean-Up and Remediation of Properties

GSWC has been involved in environmental remediation and clean-up at a plant site ("Chadron Plant") that contained an underground storage tank which was used to store gasoline for its vehicles. This tank was removed from the ground in July 1990 along with the dispenser and ancillary piping. Since then, GSWC has been involved in various remediation activities at this site.

GSWC has accrued an estimated liability which includes costs for two years of continued activities of cleanup and monitoring, and site-closure-related activities. The ultimate cost may vary as there are many unknowns in remediation of underground gasoline spills and this is an estimate based on currently available information. Management believes it is probable that the estimated additional costs will be approved in rate base by the CPUC.

Item 3. Legal Proceedings

On December 9, 2014, the City of Claremont filed an eminent domain lawsuit in the County of Los Angeles Superior Court against GSWC (City of Claremont v. Golden State Water Company, Case No. BC 566125) to acquire GSWC's Claremont system which serves the City of Claremont and parts of surrounding communities. The trial to determine Claremont's right to seize the water system by eminent domain concluded in August 2016. On December 9, 2016, the presiding judge entered the decision rejecting Claremont's attempt to take over GSWC's Claremont water system. On February 2, 2017, the City of Claremont filed an appeal to the decision. At this time, Registrant is unable predict the final outcome of the appeal.

On May 12, 2016, Casitas Municipal Water District filed an eminent domain lawsuit in Ventura County Superior Court against GSWC (Casitas Municipal Water District v. Golden State Water Company, Case No. 56-2016-00481628-CU-EI-VTA) to acquire the property and assets of GSWC located in its Ojai service area. The lawsuit included additional causes of action related to claims of potential damages resulting from any delay caused by GSWC seeking relief in the prior action regarding the use of Mello-Roos funds for such a taking of property. At this time, management cannot predict the outcome of this eminent domain proceeding or potential appeal by FLOW.

Registrant is subject to ordinary routine litigation incidental to its business. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against property, general liability and workers' compensation claims incurred in the ordinary course of business. Registrant is unable to predict an estimate of the loss, if any, resulting from any pending suits or administrative proceedings.

Item 4. Mine Safety Disclosure

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Performance Graph

The graph below compares the cumulative 5-year total return provided shareholders on American States Water Company's Common Shares relative to the cumulative total returns of the S&P 500 index and a customized peer group of eight companies. The eight companies included in the Company's customized peer group are: American Water Works Company Inc., Aqua America Inc., Artesian Resources Corporation, California Water Service Group, Connecticut Water Service Inc., Middlesex Water Company, York Water Company and SJW Corp.

An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our Common Shares, and in the common stock in the index and in the peer group on December 31, 2011. Relative performance is tracked through December 31, 2016.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
among American States Water Company, the S&P 500 Index,
and a Peer Group

*\$100 invested on December 31, 2011 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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	12/2011	12/2012	12/2013	12/2014	12/2015	12/2016
American States Water Company	\$100.00	\$141.85	\$174.54	\$235.10	\$267.80	\$297.28
S&P 500	\$100.00	\$116.00	\$153.58	\$174.60	\$177.01	\$198.18
Peer Group	\$100.00	\$117.86	\$138.72	\$168.88	\$190.48	\$235.63

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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Market Information Relating to Common Shares

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

	Stock Prices	
	High	Low
2016		
First Quarter	\$47.24	\$38.25
Second Quarter	\$43.83	\$37.28
Third Quarter	\$44.46	\$37.51
Fourth Quarter	\$46.39	\$37.47

2015

First Quarter	\$41.73	\$36.86
Second Quarter	\$40.70	\$35.87
Third Quarter	\$41.84	\$35.80
Fourth Quarter	\$44.14	\$39.67

The closing price of the Common Shares of American States Water Company on the NYSE on February 21, 2017 was \$44.54.

Approximate Number of Holders of Common Shares

As of February 21, 2017, there were 2,400 holders of record of the 36,586,831 outstanding Common Shares of American States Water Company. AWR owns all of the outstanding Common Shares of GSWC and ASUS. ASUS owns all of the outstanding stock of the Military Utility Privatization Subsidiaries.

Frequency and Amount of Any Dividends Declared and Dividend Restrictions

For the last two years, AWR has paid dividends on its Common Shares on or about March 1, June 1, September 1 and December 1. The following table lists the amounts of dividends paid on Common Shares of American States Water Company:

	2016	2015
First Quarter	\$0.224	\$0.213
Second Quarter	\$0.224	\$0.213
Third Quarter	\$0.224	\$0.224
Fourth Quarter	\$0.242	\$0.224
Total	\$0.914	\$0.874

AWR’s ability to pay dividends is subject to the requirement in its \$150.0 million revolving credit facility to maintain compliance with all covenants described in footnote (14) to the table in the section entitled “Contractual Obligations, Commitments and Off Balance Sheet Arrangements” included in Part II, Item 7, in Management’s Discussion and Analysis of Financial Condition and Results of Operation. GSWC’s maximum ability to pay dividends is restricted by certain Note Agreements to the sum of \$21.0 million plus 100% of consolidated net income from certain dates plus the aggregate net cash proceeds received from capital stock offerings or other instruments convertible into capital stock from various dates. Under the most restrictive of the Note Agreements, \$374.8 million was available from GSWC to pay dividends to AWR as of December 31, 2016. GSWC is also prohibited under the terms of senior notes from paying dividends if, after giving effect to the dividend, its total indebtedness to capitalization ratio (as defined) would be more than 0.6667-to-1. GSWC would have to issue additional debt of \$500.7 million to invoke this covenant as of December 31, 2016.

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Under California law, AWR, GSWC and ASUS are each permitted to distribute dividends to its shareholders and repurchase its shares so long as the Board of Directors determines, in good faith, that either: (i) the value of the corporation's assets equals or exceeds the sum of its total liabilities immediately after the dividend, or (ii) its retained earnings equals or exceeds the amount of the distribution. Under the least restrictive of the California tests, approximately \$247.1 million was available to pay dividends to AWR's common shareholders and repurchase shares from AWR's common shareholders at December 31, 2016. Approximately \$206.3 million was available for GSWC to pay dividends to AWR at December 31, 2016 and approximately \$57.2 million was available for ASUS to pay dividends to AWR at December 31, 2016. However, ASUS's ability to pay dividends is further subject to the ability of each of its subsidiaries to pay dividends to it, which may, in turn, be restricted by the laws under the states in which the applicable subsidiary was formed.

AWR paid \$33.4 million in dividends to shareholders for the year ended December 31, 2016, as compared to \$32.7 million for the year ended December 31, 2015. GSWC paid dividends of \$25.5 million and \$62.0 million to AWR in 2016 and 2015, respectively. ASUS paid dividends of \$8.3 million to AWR in 2016, and did not pay a dividend in 2015. AWR paid \$72.9 million to repurchase its Common Shares in 2015. No shares were repurchased during 2016 pursuant to a stock repurchase program.

Other Information

The shareholders of AWR have approved the material features of all equity-compensation plans under which AWR directly issues equity securities. AWR did not directly issue any unregistered equity securities during 2016.

The following table provides information about AWR repurchases of its Common Shares during the fourth quarter of 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased under the Plans or Programs (1)(3)
October 1—31, 2016	1,379	\$ 38.79	—	—
November 1—30, 2016	4,545	\$ 39.52	—	—
December 1—31, 2016	6,060	\$ 43.23	—	—
Total	30,984	(2)\$ 40.09	—	—

(1) None of the common shares were repurchased pursuant to any publicly announced stock repurchase program.

(2) Of this amount, 23,800 Common Shares were acquired on the open market for employees pursuant to AWR's 401(k) Plan and the remainder of the Common Shares were acquired on the open market for participants in the Common Share Purchase and Dividend Reinvestment Plan.

(3) Neither the 401(k) plan nor the Common Share Purchase and Dividend Reinvestment Plan contains a maximum number of common shares that may be purchased in the open market.

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Item 6. Selected Financial Data

AMERICAN STATES WATER COMPANY (AWR):

(in thousands, except per share amounts)	2016	2015	2014	2013	2012
Income Statement Information:					
Total Operating Revenues	\$436,087	\$458,641	\$465,791	\$472,077	\$466,908
Total Operating Expenses	321,371	340,152	346,746	353,005	355,814
Operating Income	114,716	118,489	119,045	119,072	111,094
Interest Expense	21,992	21,088	21,617	22,415	22,765
Interest Income	757	458	927	707	1,333
Net Income	\$59,743	\$60,484	\$61,058	\$62,686	\$54,148
Basic Earnings per Common Share (1)	\$1.63	\$1.61	\$1.57	\$1.61	\$1.42
Fully Diluted Earnings per Common Share (1)	\$1.62	\$1.60	\$1.57	\$1.61	\$1.41
Average Shares Outstanding	36,552	37,389	38,658	38,639	37,998
Average number of Diluted Shares Outstanding	36,750	37,614	38,880	38,869	38,262
Dividends paid per Common Share	\$0.914	\$0.874	\$0.831	\$0.760	\$0.635

Balance Sheet Information:

Total Assets (2) (3)	\$1,470,493	\$1,343,959	\$1,373,316	\$1,305,041	\$1,275,404
Common Shareholders' Equity	494,297	465,945	506,801	492,404	454,579
Long-Term Debt (3)	320,981	320,900	320,816	320,937	326,924
Total Capitalization	\$815,278	\$786,845	\$827,617	\$813,341	\$781,503

GOLDEN STATE WATER COMPANY (GSWC):

(in thousands)	2016	2015	2014	2013	2012
Income Statement Information:					
Total Operating Revenues	\$338,702	\$364,550	\$361,059	\$358,540	\$342,931
Total Operating Expenses	242,883	264,141	261,317	256,197	256,326
Operating Income	95,819	100,409	99,742	102,343	86,605
Interest Expense	21,782	20,998	21,524	22,287	22,609
Interest Income	749	440	894	615	1,293
Net Income	\$46,969	\$47,591	\$47,857	\$48,642	\$39,220

Balance Sheet Information:

Total Assets (2) (3)	\$1,384,178	\$1,271,879	\$1,277,392	\$1,228,239	\$1,208,513
Common Shareholder's Equity	446,770	423,730	435,190	437,613	416,257
Long-Term Debt (3)	320,981	320,900	320,816	320,937	326,924
Total Capitalization	\$767,751	\$744,630	\$756,006	\$758,550	\$743,181

(1) On September 3, 2013, a two-for-one stock split became effective. The number of shares outstanding, and basic and diluted earnings per share ("EPS") have been restated for all periods presented above to reflect the stock split.

(2) Registrant adopted Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes, as of December 31, 2015 on a prospective basis, whereby all deferred tax assets and liabilities are classified as noncurrent on the Registrant's balance sheet. Prior periods were not retrospectively adjusted.

(3) Registrant adopted Accounting Standard Update 2015-03, Simplifying the Presentation of Debt Issuance Costs as of December 31, 2016, whereby debt issuance costs and redemption premiums are presented as a direct reduction from the carrying value of the associated debt rather than as an asset. Total Assets and Long-Term Debt have been restated for all periods presented above.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion and analysis provides information on AWR's consolidated operations and assets, and where necessary, includes specific references to AWR's individual segments and/or its subsidiaries: GSWC and ASUS and its subsidiaries. Included in the following analysis is a discussion of water and electric gross margins. Water and electric gross margins are computed by subtracting total supply costs from total revenues. Registrant uses these gross margins as important measures in evaluating its operating results. Registrant believes these measures are useful internal benchmarks in evaluating the performance of GSWC.

The discussions and tables included in the following analysis also present Registrant's operations in terms of earnings per share by business segment. Registrant believes that the disclosure of earnings per share by business segment provides investors with clarity surrounding the performance of its different services. Registrant reviews these measurements regularly and compares them to historical periods and to its operating budget. However, these measures, which are not presented in accordance with Generally Accepted Accounting Principles ("GAAP"), may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income or earnings per share, which are determined in accordance with GAAP. A reconciliation of water and electric gross margins to the most directly comparable GAAP measures is included in the table under the section titled "Operating Expenses: Supply Costs." Reconciliations to AWR's diluted earnings per share are included in the discussions under the sections titled "Summary Results by Segment."

Overview

Factors affecting our financial performance are summarized under Forward-Looking Information.

Water and Electric Segments:

GSWC's revenues, operating income and cash flows are earned primarily through delivering potable water to homes and businesses in California and the delivery of electricity in the Big Bear area of San Bernardino County, California. Rates charged to GSWC customers are determined by the CPUC. These rates are intended to allow recovery of operating costs and a reasonable rate of return on capital. GSWC plans to continue to seek additional rate increases in future years from the CPUC to recover operating and supply costs and receive reasonable returns on invested capital. Capital expenditures in future years at GSWC are expected to remain at higher levels than depreciation expense. When necessary, GSWC obtains funds from external sources in the capital markets and through bank borrowings.

Water General Rate Case

On December 15, 2016, the CPUC issued a decision on GSWC's water general rate case. GSWC had filed a general rate case application in July 2014 for all of its water regions and the general office to determine new rates for the years 2016 - 2018. The new rates approved by the CPUC were retroactive to January 1, 2016. The 2016 adopted revenues approved in the decision were lower than the adopted levels in 2015, due primarily to reductions in the revenue requirement for: (i) supply costs caused by lower consumption, (ii) depreciation expense resulting from an updated depreciation study, and (iii) other operating expenses due to GSWC's cost containment initiatives. This reduction in water revenues was mostly offset by corresponding decreases in supply costs, depreciation and certain other operating expenses, as discussed later.

Among other things, the decision (i) authorized 87%, or approximately \$250 million, of GSWC's capital requests in customer rates, (ii) allowed only a portion of the executive incentive programs, (iii) approved recovery of previously incurred costs that were being tracked in CPUC-authorized memorandum accounts, which resulted in an approximate \$800,000 reduction to administrative and general expenses for 2016, and (iv) adopted consumption levels, which reflect state-mandated conservation targets that were imposed by the governor of California during the processing of the application. In addition, in accordance with the settlement between GSWC and the CPUC's Office of Ratepayer Advocates, the decision used updated inflation index values to calculate operating expense increases for 2015 and

2016. These inflation indices were lower than the inflation indices used in July 2014 when the water rate case application was filed.

Contracted Services Segment:

ASUS's revenues, operating income and cash flows are earned by providing water and/or wastewater services, including operation and maintenance services and construction of facilities at the water and/or wastewater systems at various military installations, pursuant to 50-year firm fixed-price contracts. The contract price for each of these contracts is subject to prospective price redeterminations or economic price adjustments. Additional revenues generated by contract operations are primarily dependent on new construction activities under contract modifications with the U.S. government or agreements with other third-party prime contractors.

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New Privatization Contract Award

On July 12, 2016, ASUS was awarded a 50-year contract by the U.S. government to operate, maintain, and provide construction services for the water and wastewater systems at Eglin Air Force Base located in Florida. The initial value of the contract was estimated at approximately \$510 million over the 50-year period and is subject to annual economic price adjustments. This initial value is also subject to adjustment based on the results of a joint inventory of assets, which is currently underway. ASUS will assume operations at Eglin Air Force Base in the spring of 2017 following the completion of a transition period currently underway.

AWR (parent):

Stock Repurchase Programs

In 2014 and 2015, AWR's Board of Directors approved two stock repurchase programs, authorizing AWR to repurchase up to 2.45 million shares of AWR's Common Shares. Both stock repurchase programs were completed in 2015. The repurchase programs were intended to enable AWR to achieve a consolidated shareholders' equity ratio (as a percentage of total capitalization) that is more reflective of the current CPUC-authorized equity ratio for GSWC and an equity ratio for ASUS that is more consistent with firms in the government contracting industry. As a result, AWR repurchased 1.9 million and 545,000 shares of its Common Shares during the years ended December 31, 2015 and 2014, respectively. These repurchases reduced AWR's weighted-average shares outstanding on a diluted basis, which positively benefited earnings per share for the years ended December 31, 2016 and 2015.

Summary Results by Segment

The table below sets forth diluted earnings per share by business segment for AWR's operations:

	Diluted Earnings per Share		
	Year Ended		
	12/31/2016	12/31/2015	CHANGE
Water	\$ 1.17	\$ 1.19	\$ (0.02)
Electric	0.10	0.07	0.03
Contracted services	0.33	0.32	0.01
AWR (parent)	0.02	0.02	—
Totals from operations, as reported	\$ 1.62	\$ 1.60	\$ 0.02

Water Segment:

For the year ended December 31, 2016, fully diluted earnings per share for the water segment decreased by \$0.02 per share to \$1.17 per share, as compared to \$1.19 per share for 2015. The discussion below includes the major items, which impacted the comparability of the two periods.

The water gross margin decreased by \$9.9 million as a result of lower 2016 adopted revenues authorized by the CPUC's decision in the water GRC, which sets new rates for the years 2016 - 2018. The adopted gross margin in this new rate cycle (starting with 2016) was lower due, in large part, to decreases in adopted expenses including depreciation expense resulting from an updated depreciation study, and many other operating expenses resulting from GSWC's cost containment initiatives. The reduction in the water gross margin was mostly offset by corresponding decreases in depreciation and certain other operating expenses as discussed below. The decrease in the adopted water gross margin was also partially offset by (i) the recognition of a portion of the 2015 WRAM revenues that had previously been deferred as required under the accounting guidance for revenue programs such as the WRAM, (ii) new revenues generated from a water system acquired in October 2015, (iii) higher revenues due to increased consumption as compared to 2015 from customers that are not subject to conservation rates, and (iv) revenues from advice letter capital projects approved by the CPUC in 2015.

Total operating expenses (excluding supply costs, and condemnation-related costs discussed below) decreased by approximately \$7.6 million. The lower operating expenses, most of which were reflected in the lower gross margin discussed above, included a decrease in (i) depreciation expense resulting from a new depreciation study approved in

the water GRC, (ii) allocated costs to the water segment from corporate headquarters as stipulated in the water GRC, and (iii) pension and other operating expenses. In addition, the CPUC's approval for recovery of approximately \$800,000 of previously incurred costs, which were being tracked in CPUC-authorized memorandum accounts, was reflected as a decrease in operating expenses.

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Negatively impacting the water segment's results was an increase of approximately \$4.0 million in legal and other outside service costs incurred on condemnation-related matters. These costs are expected to continue and will fluctuate from year to year. The Company may receive reimbursement of certain legal and other fees that have been expended in defending against condemnation actions initiated by third parties. However, recovery of such costs is subject to appeals and final resolution of the proceedings involved, which are expected to take in excess of one year to resolve. At this time, the Company is unable to predict when and how much, if any, will be reimbursed.

Favorably impacting the water segment's results was (i) a decrease in the effective income tax rate for the water segment due to differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements, and (ii) the cumulative impact of lower Common Shares outstanding resulting from the stock repurchase programs.

Electric Segment:

For the year ended December 31, 2016, diluted earnings from the electric segment increased by \$0.03 per share as compared to the same period in 2015. There was an increase in the electric gross margin resulting from CPUC approval of fourth-year rate increases effective January 1, 2016, as well as CPUC-approved rate increases generated from advice letter filings approved in 2015 and 2016. There was also a decrease in allocated costs to the electric segment from corporate headquarters as stipulated in the water GRC decision and a decrease in expenses associated with the solar-initiative program.

Contracted Services Segment:

For the year ended December 31, 2016, diluted earnings from contracted services were \$0.33 per share, compared to \$0.32 per share for the same period in 2015. The increase in earnings was due to higher contracted services revenue resulting from an increase in ongoing operations and maintenance ("O&M") revenues due to the successful resolution of price redeterminations, economic price adjustments and asset transfers, and an overall increase in construction activity and a higher direct construction margin percentage resulting from improved cost efficiencies. The effect of these favorable variances was partially offset by (i) an increase in the allocation of administrative and general expenses from corporate headquarters to the contracted services segment as stipulated in the water GRC, (ii) an increase in ASUS labor and outside services costs, and (iii) a higher effective income tax rate resulting primarily from an increase in state income taxes as compared to the same period in 2015. State income taxes vary among the jurisdictions in which the contracted services business operates. In addition, there was \$3.0 million of retroactive revenues recorded in 2015 related to periods prior to 2015 resulting from the resolution of several price redeterminations, as compared to approximately \$421,000 in retroactive revenues recorded in 2016 related to 2015.

The following discussion and analysis for the years ended December 31, 2016, 2015 and 2014 provides information on AWR's consolidated operations and assets and, where necessary, includes specific references to AWR's individual segments and subsidiaries: GSWC and ASUS and its subsidiaries.

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Consolidated Results of Operations — Years Ended December 31, 2016 and 2015 (amounts in thousands, except per share amounts):

	Year Ended 12/31/2016	Year Ended 12/31/2015	\$ CHANGE	% CHANGE	
OPERATING REVENUES					
Water	\$ 302,931	\$ 328,511	\$(25,580)	-7.8	%
Electric	35,771	36,039	(268)	-0.7	%
Contracted services	97,385	94,091	3,294	3.5	%
Total operating revenues	436,087	458,641	(22,554)	-4.9	%
OPERATING EXPENSES					
Water purchased	64,442	62,726	1,716	2.7	%
Power purchased for pumping	8,663	8,988	(325)	-3.6	%
Groundwater production assessment	14,993	13,648	1,345	9.9	%
Power purchased for resale	10,387	10,395	(8)	-0.1	%
Supply cost balancing accounts	(12,206)	7,785	(19,991)	-256.8	%
Other operation	28,257	28,429	(172)	-0.6	%
Administrative and general	80,994	79,817	1,177	1.5	%
Depreciation and amortization	38,850	42,033	(3,183)	-7.6	%
Maintenance	16,470	16,885	(415)	-2.5	%
Property and other taxes	16,801	16,636	165	1.0	%
ASUS construction	53,720	52,810	910	1.7	%
Total operating expenses	321,371	340,152	(18,781)	-5.5	%
OPERATING INCOME	114,716	118,489	(3,773)	-3.2	%
OTHER INCOME AND EXPENSES					
Interest expense	(21,992)	(21,088)	(904)	4.3	%
Interest income	757	458	299	65.3	%
Other, net	997	356	641	180.1	%
	(20,238)	(20,274)	36	-0.2	%
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE	94,478	98,215	(3,737)	-3.8	%
Income tax expense	34,735	37,731	(2,996)	-7.9	%
NET INCOME	\$ 59,743	\$ 60,484	\$(741)	-1.2	%
Basic earnings per Common Share	\$ 1.63	\$ 1.61	\$ 0.02	1.2	%
Fully diluted earnings per Common Share	\$ 1.62	\$ 1.60	\$ 0.02	1.3	%

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Operating Revenues

General

Registrant relies upon approvals by the CPUC of rate increases to recover operating expenses and to provide for a return on invested and borrowed capital used to fund utility plant for GSWC. Registrant relies on price redeterminations, economic price adjustments and equitable adjustments by the U.S. government in order to recover operating expenses and provide a profit margin for ASUS. If adequate rate relief or price redeterminations and other contract adjustments are not granted in a timely manner, operating revenues and earnings can be negatively impacted. ASUS's earnings are also impacted by the level of additional construction projects at the Military Utility Privatization Subsidiaries, which may or may not continue at current levels in future periods.

Water

For the year ended December 31, 2016, revenues from water operations decreased by \$25.6 million to \$302.9 million, compared to \$328.5 million for the year ended December 31, 2015. The 2016 adopted revenues in the CPUC's December 2016 decision on the water general rate case were approximately \$29.8 million lower than the 2015 adopted revenues mainly due to reductions in the revenue requirement for: (i) supply costs caused by lower consumption, (ii) depreciation expense resulting from an updated depreciation study, and (iii) other operating expenses resulting from GSWC's cost containment initiatives. This reduction in water revenues was mostly offset by corresponding decreases in supply costs, depreciation and certain other operating expenses, as discussed later.

The reduction in adopted revenues discussed above was partially offset by (i) new revenues generated from a water system acquired in October 2015, (ii) higher revenues due to increased consumption as compared to 2015 from customers that are not subject to conservation rates, (iii) revenues from advice letter capital projects approved by the CPUC in 2015, and (iv) the recognition of a portion of the 2015 WRAM revenues that had previously been deferred as required under the accounting guidance for alternative revenue programs such as the WRAM. Under the accounting guidance, GSWC is required to collect its WRAM balances, net of MCBA, within 24 months following the year in which they are recorded. During the fourth quarter of 2015, GSWC did not record water revenues of \$1.4 million related to its 2015 under-collected WRAM balances as it was estimated that this amount would not be fully collected within 24 months following the end of 2015 using the required CPUC amortization guidelines. During 2016, GSWC recognized approximately \$910,000 of the \$1.4 million as water revenue.

Billed water consumption for the year ended December 31, 2016 increased slightly as compared to the same period in 2015. In general, changes in consumption do not have a significant impact on recorded revenues due to the CPUC-approved WRAM accounts in place in all three water regions. GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC in the WRAM accounts as regulatory assets or liabilities.

Electric

For the year ended December 31, 2016, revenues from electric operations were \$35.8 million as compared to \$36.0 million for the year ended December 31, 2015. The decrease was due to the termination in August 2015 of a supply cost surcharge to recover previously incurred energy costs. The decrease in revenues from the termination of this surcharge was approximately \$1.4 million and had no impact on pretax operating income due to an offsetting decrease in supply costs. This decrease in revenue was mostly offset by CPUC-approved fourth-year rate increases effective January 1, 2016, and rate increases generated from advice letter filings approved by the CPUC during 2015 and 2016.

Billed electric usage for the year ended December 31, 2016 decreased by approximately 4% as compared to the same period in 2015. The cold weather and storms experienced in the Big Bear area in late 2016 resulted in less need for snowmaking. In addition, solar and energy efficiency programs offered by BVES have resulted in less customer usage. Due to the CPUC-approved base revenue requirement adjustment mechanism ("BRRAM"), which adjusts base revenues to adopted levels authorized by the CPUC, changes in usage do not have a significant impact on earnings.

Contracted Services

Revenues from contracted services are composed of construction revenues (including renewal and replacements) and management fees for operating and maintaining the water and/or wastewater systems at various military bases. For the year ended December 31, 2016, revenues from contracted services were \$97.4 million as compared to \$94.1 million for 2015. There was an increase in ongoing operations and maintenance management fees due to the

successful resolution of price redeterminations, economic price adjustments and asset transfers. There was also an overall increase in construction activity at various military bases as compared to 2015. These increases were partially offset by a decrease in retroactive revenues received in 2016 as compared to 2015. In 2015, there was \$3.0 million of retroactive management fee revenues recorded related to periods prior to 2015 resulting from the resolution of several price redeterminations, as compared to approximately \$421,000 in retroactive revenues recorded in 2016 related to 2015.

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ASUS subsidiaries continue to enter into U.S. government-awarded contract modifications and agreements with third-party prime contractors for new construction projects at the Military Utility Privatization Subsidiaries. During 2016, ASUS was awarded approximately \$24 million in new construction projects, the majority of which are expected to be completed during 2017. Earnings and cash flows from modifications to the original 50-year contracts with the U.S. government and agreements with third-party prime contractors for additional construction projects may or may not continue in future periods.

Operating Expenses:

Supply Costs

Supply costs for the water segment consist of purchased water, purchased power for pumping, groundwater production assessments and water-supply-cost balancing accounts. Supply costs for the electric segment consist of power purchased for resale, the cost of natural gas used by the electric segment's generating unit, the cost of renewable energy credits and the electric-supply-cost balancing account. Water and electric gross margins are each computed by subtracting total supply costs from total revenues. Registrant uses these gross margins and related percentages as important measures in evaluating its operating results. Registrant believes these measures are useful internal benchmarks in evaluating the utility business performance within its water and electric segments. Registrant reviews these measurements regularly and compares them to historical periods and to its operating budget. However, these measures, which are not presented in accordance with GAAP, may not be comparable to similarly titled measures used by other entities and should not be considered as alternatives to operating income, which is determined in accordance with GAAP.

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for 26.8% and 30.4% of total operating expenses for the years ended December 31, 2016 and 2015, respectively.

The table below provides the amounts (in thousands) of increases (decreases) and percent changes in water and electric revenues, supply costs and gross margins during the years ended December 31, 2016 and 2015:

	Year Ended 12/31/2016	Year Ended 12/31/2015	\$	%	
			CHANGE	CHANGE	
WATER OPERATING REVENUES (1)	\$ 302,931	\$ 328,511	\$(25,580)	-7.8	%
WATER SUPPLY COSTS:					
Water purchased (1)	64,442	62,726	1,716	2.7	%
Power purchased for pumping (1)	8,663	8,988	(325)	-3.6	%
Groundwater production assessment (1)	14,993	13,648	1,345	9.9	%
Water supply cost balancing accounts (1)	(14,813)	3,623	(18,436)	-508.9	%
TOTAL WATER SUPPLY COSTS	\$ 73,285	\$ 88,985	\$(15,700)	-17.6	%
WATER GROSS MARGIN (2)	\$ 229,646	\$ 239,526	\$(9,880)	-4.1	%
ELECTRIC OPERATING REVENUES (1)	\$ 35,771	\$ 36,039	\$(268)	-0.7	%
ELECTRIC SUPPLY COSTS:					
Power purchased for resale (1)	10,387	10,395	(8)	-0.1	%
Electric supply cost balancing accounts (1)	2,607	4,162	(1,555)	-37.4	%
TOTAL ELECTRIC SUPPLY COSTS	\$ 12,994	\$ 14,557	\$(1,563)	-10.7	%
ELECTRIC GROSS MARGIN (2)	\$ 22,777	\$ 21,482	\$ 1,295	6.0	%

(1) As reported on AWR's Consolidated Statements of Income, except for supply-cost-balancing accounts. The sums of water and electric supply-cost balancing accounts in the table above are shown on AWR's Consolidated Statements of Income and totaled \$(12.2) million and \$7.8 million for the years ended December 31, 2016 and 2015, respectively. Revenues include surcharges, which increase both revenues and operating expenses by corresponding amounts, thus having no net earnings impact.

(2) Water and electric gross margins do not include depreciation and amortization, maintenance, administrative and general, property and other taxes, and other operation expenses.

Two of the principal factors affecting water supply costs are the amount of water produced and the source of the water. Generally, the variable cost of producing water from wells is less than the cost of water purchased from wholesale suppliers. Under the MCBA, GSWC tracks adopted and actual expense levels for purchased water, power purchased for pumping and

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pump taxes, as established by the CPUC. GSWC records the variances (which include the effects of changes in both rate and volume) between adopted and actual purchased water, purchased power and pump tax expenses. GSWC recovers from, or refunds to, customers the amount of such variances. GSWC tracks these variances for each water rate-making area.

The overall actual percentages for purchased water for the years ended December 31, 2016 and 2015 were 40% and 41%, respectively, as compared to the adopted percentages of 29% and 36%, respectively. The increase in the percentage of purchased water was due to several wells being temporarily out of service during 2016, resulting in an increase in purchased water as compared to pumped water.

Purchased water costs for the year ended December 31, 2016 increased to \$64.4 million as compared to \$62.7 million for the same period in 2015 primarily due to an increase of purchased water in the supply mix as a result of several wells being out of service, as well as an increase in wholesale water costs as compared to the year ended December 31, 2015.

For the year ended December 31, 2016, the cost of power purchased for pumping decreased to \$8.7 million as compared to \$9.0 million for the same period in 2015 primarily due to decreases in pumped water resulting from the increase in purchased water. Groundwater production assessments were \$15.0 million in 2016 as compared to \$13.6 million in 2015 due to higher assessment rates.

The water-supply-cost balancing account decreased \$18.4 million during the year ended December 31, 2016 as compared to the same period in 2015 due to higher incurred supply costs as compared to the authorized supply costs. The authorized supply costs reflect the lower adopted customer usage.

For the years ended December 31, 2016 and 2015, the cost of power purchased for resale to BVES's customers was \$10.4 million. A decrease of 4% in customer usage for the year ended December 31, 2016 as compared to 2015 was offset by an increase in the average price per megawatt-hour ("MWh"). The average price per MWh, including fixed costs, increased from \$68.21 per MWh for the year ended December 31, 2015 to \$69.54 per MWh for the same period in 2016. The electric-supply-cost balancing account included in total supply costs decreased by \$1.6 million primarily due to the 2015 termination of supply cost surcharges, which have no impact on pretax operating income.

Other Operation

The primary components of other operation expenses for GSWC include payroll, materials and supplies, chemicals and water treatment costs and outside service costs of operating the regulated water and electric systems, including the costs associated with transmission and distribution, pumping, water quality, meter reading, billing and operations of district offices. Registrant's contracted services operations incur many of the same types of expenses. For the years ended December 31, 2016 and 2015, other operation expenses by business segment consisted of the following amounts (in thousands):

	Year Ended 12/31/2016	Year Ended 12/31/2015	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 21,649	\$ 21,961	\$ (312)	-1.4	%
Electric Services	3,122	2,931	191	6.5	%
Contracted Services	3,486	3,537	(51)	-1.4	%
Total other operation	\$ 28,257	\$ 28,429	\$ (172)	-0.6	%

Other operation expenses at the water segment decreased by \$312,000 during the year ended December 31, 2016 as compared to the same period in 2015 due primarily to lower conservation and drought-related costs incurred during 2016, partially offset by increases in water treatment costs. Higher conservation and drought-related costs were

incurred in 2015 in response to the governor of California's 2015 executive order mandating reductions in water usage. GSWC has been authorized by the CPUC to track incremental drought-related costs in a memorandum account for possible future recovery. During the second quarter of 2016, GSWC filed for recovery of drought-related items of approximately \$1.3 million including \$1.0 million in costs, which had been previously incurred mostly in 2015. Incremental drought-related costs were being expensed until recovery is approved by the CPUC. In February 2017, the CPUC approved recovery of the amounts included in this drought-related memorandum account. Accordingly, GSWC will reflect the approval during the first quarter of 2017 mostly as a reduction to operation-related expenses.

The increase in other operation expenses at the electric segment was due to outside services costs and labor costs incurred in response to power outages caused by severe winter storms experienced in January 2016.

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Administrative and General

Administrative and general expenses include payroll related to administrative and general functions, the related employee benefits, insurance expenses, outside legal and consulting fees, regulatory utility commission expenses, expenses associated with being a public company and general corporate expenses charged to expense accounts. For the years ended December 31, 2016 and 2015, administrative and general expenses by business segment, including AWR (parent), consisted of the following amounts (in thousands):

	Year Ended 12/31/2016	Year Ended 12/31/2015	\$ CHANGE	% CHANGE	
Water Services	\$ 56,165	\$ 55,977	\$ 188	0.3	%
Electric Services	7,901	8,900	(999)	-11.2	%
Contracted Services	16,909	14,929	1,980	13.3	%
AWR (parent)	19	11	8	72.7	%
Total administrative and general	\$ 80,994	\$ 79,817	\$ 1,177	1.5	%

For the year ended December 31, 2016, administrative and general expenses at the water segment increased overall due, in large part, to an increase of approximately \$4.0 million in legal and other outside service costs incurred on condemnation-related matters. Legal and other outside service costs for these matters are expected to continue; however, the level of costs are expected to fluctuate from year to year. The increase in these outside services was mostly offset by decreases in pension costs, transportation-related expenses, and a higher allocation of corporate headquarters costs to the contracted services segment. The decreases in these expenses were also reflected in the newly adopted water revenue requirement.

For the year ended December 31, 2016, administrative and general expenses for the electric segment decreased by \$1.0 million as compared to the same period in 2015 due primarily to decreases in costs associated with the energy-efficiency and solar-initiative programs approved by the CPUC. The costs of these programs have been included in customer rates equally over the rate cycle. The spending of such funds had increased in 2015 due to the delay in receiving the final decision in November 2014 of the BVES rate case, which authorized these programs. There was also a lower allocation of administrative and general expenses to the electric segment from the corporate headquarters in 2016, as stipulated in the decision of the water general rate case.

For the year ended December 31, 2016, administrative and general expenses for contracted services increased by \$2.0 million due to (i) an increase of \$1.3 million in the allocation of administrative and general expenses from GSWC to the contracted services segment as stipulated in the final decision on the water general rate case, and (ii) increases in ASUS labor-related costs.

Depreciation and Amortization

For the years ended December 31, 2016 and 2015, depreciation and amortization expense by segment consisted of the following amounts (in thousands):

	Year Ended 12/31/2016	Year Ended 12/31/2015	\$ CHANGE	% CHANGE	
Water Services	\$ 35,777	\$ 39,190	\$ (3,413)	-8.7	%
Electric Services	2,027	1,703	324	19.0	%
Contracted Services	1,046	1,140	(94)	-8.2	%
Total depreciation and amortization	\$ 38,850	\$ 42,033	\$ (3,183)	-7.6	%

For the year ended December 31, 2016, depreciation and amortization expense for the water segment decreased by \$3.4 million due to lower composite depreciation rates used in 2016 resulting from an updated depreciation study in the water general rate case. This decrease was partially offset by depreciation on additions to utility plant during 2016.

The lower net depreciation expense has been reflected in the newly adopted water revenue requirement.

For the year ended December 31, 2016, depreciation and amortization expense for the electric segment increased due primarily from the impact of capital additions.

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Maintenance

For the years ended December 31, 2016 and 2015, maintenance expense by segment consisted of the following amounts (in thousands):

	Year Ended 12/31/2016	Year Ended 12/31/2015	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 13,783	\$ 13,935	\$ (152)	-1.1	%
Electric Services	736	758	(22)	-2.9	%
Contracted Services	1,951	2,192	(241)	-11.0	%
Total maintenance	\$ 16,470	\$ 16,885	\$ (415)	-2.5	%

Maintenance expense for contracted services decreased due primarily to (i) a decrease in labor costs associated with maintenance-related activities, and (ii) a decrease in outside services costs.

Property and Other Taxes

For the years ended December 31, 2016 and 2015, property and other taxes by segment, consisted of the following amounts (in thousands):

	Year Ended 12/31/2016	Year Ended 12/31/2015	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 14,362	\$ 14,250	\$ 112	0.8	%
Electric Services	1,082	994	88	8.9	%
Contracted Services	1,357	1,392	(35)	-2.5	%
Total property and other taxes	\$ 16,801	\$ 16,636	\$ 165	1.0	%

ASUS Construction

For the year ended December 31, 2016, construction expenses for contracted services were \$53.7 million, increasing by \$910,000 compared to the same period in 2015 due to increased construction activity as compared to 2015.

Interest Expense

For the years ended December 31, 2016 and 2015, interest expense by segment, including AWR (parent), consisted of the following amounts (in thousands):

	Year Ended 12/31/2016	Year Ended 12/31/2015	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 20,430	\$ 19,898	\$ 532	2.7	%
Electric Services	1,352	1,100	252	22.9	%
Contracted Services	76	33	43	130.3	%
AWR (parent)	134	57	77	135.1	%
Total interest expense	\$ 21,992	\$ 21,088	\$ 904	4.3	%

Overall, interest expense for the year ended December 31, 2016 increased by \$904,000 as compared to the same period in 2015 due, in part, to capitalized interest during the first quarter of 2015 at the water segment resulting from the recording of an allowance for funds used during construction in connection with the CPUC's approval of a filing for advice letter capital projects. There was no similar item during 2016. There was also an increase in interest expense due to higher borrowings on the revolving credit facility during 2016. Borrowings on the revolving credit facility are expected to continue in 2017 to fund operations and a portion of capital expenditures.

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Interest Income

For the years ended December 31, 2016 and 2015, interest income by business segment, including AWR (parent), consisted of the following amounts (in thousands):

	Year Ended 12/31/2016	Year Ended 12/31/2015	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 734	\$ 430	\$ 304	70.7	%
Electric Services	15	10	5	50.0	%
Contracted Services	8	7	1	14.3	%
AWR (parent)	—	11	(11)	-100.0	%
Total interest income	\$ 757	\$ 458	\$ 299	65.3	%

Interest income increased by \$299,000 for the year ended December 31, 2016 as compared to the same period in 2015 due primarily to higher interest accrued on regulatory assets as compared to the same period in 2015.

Other, net

For the year ended December 31, 2016, other income increased by \$641,000 primarily due to higher gains recorded on investments held for a retirement benefit plan resulting from recent market conditions as compared to 2015.

Income Tax Expense

For the years ended December 31, 2016 and 2015, income tax expense by segment, including AWR (parent), consisted of the following amounts (in thousands):

	Year Ended 12/31/2016	Year Ended 12/31/2015	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 25,894	\$ 30,302	\$ (4,408)	-14.5	%
Electric Services	2,715	2,170	545	25.1	%
Contracted Services	6,672	6,069	603	9.9	%
AWR (parent)	(546)	(810)	264	-32.6	%
Total income tax expense	\$ 34,735	\$ 37,731	\$ (2,996)	-7.9	%

Consolidated income tax expense for the year ended December 31, 2016 decreased by \$3.0 million due primarily to a decrease in pretax income as well as a decrease in the overall effective income tax rate ("ETR"). AWR's ETR was 36.8% for the year ended December 31, 2016 as compared to 38.4% for the same period in 2015. The ETR for GSWC was 37.9% for 2016 as compared to 40.6% for 2015 due primarily to differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements, and permanent differences such as deductions related to production activities. The decrease in GSWC's ETR was partially offset by an increase in the ETR at the contracted services segment, which was due mostly to higher state taxes, which vary among the jurisdictions in which it operates.

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Consolidated Results of Operations — Years Ended December 31, 2015 and 2014 (dollar amounts in thousands, except per share amounts):

	Year Ended 12/31/2015	Year Ended 12/31/2014	\$	%	
			CHANGE	CHANGE	
OPERATING REVENUES					
Water	\$ 328,511	\$ 326,672	\$ 1,839	0.6	%
Electric	36,039	34,387	1,652	4.8	%
Contracted services	94,091	104,732	(10,641)	-10.2	%
Total operating revenues	458,641	465,791	(7,150)	-1.5	%
OPERATING EXPENSES					
Water purchased	62,726	57,790	4,936	8.5	%
Power purchased for pumping	8,988	10,700	(1,712)	-16.0	%
Groundwater production assessment	13,648	16,450	(2,802)	-17.0	%
Power purchased for resale	10,395	9,649	746	7.7	%
Supply cost balancing accounts	7,785	6,346	1,439	22.7	%
Other operation	28,429	28,288	141	0.5	%
Administrative and general	79,817	78,268	1,549	2.0	%
Depreciation and amortization	42,033	41,073	960	2.3	%
Maintenance	16,885	16,092	793	4.9	%
Property and other taxes	16,636	16,722	(86)	-0.5	%
ASUS construction	52,810	65,368	(12,558)	-19.2	%
Total operating expenses	340,152	346,746	(6,594)	-1.9	%
OPERATING INCOME	118,489	119,045	(556)	-0.5	%
OTHER INCOME AND EXPENSES					
Interest expense	(21,088)	(21,617)	529	-2.4	%
Interest income	458	927	(469)	-50.6	%
Other, net	356	751	(395)	-52.6	%
	(20,274)	(19,939)	(335)	1.7	%
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE	98,215	99,106	(891)	-0.9	%
Income tax expense	37,731	38,048	(317)	-0.8	%
INCOME FROM OPERATIONS	\$ 60,484	\$ 61,058	\$ (574)	-0.9	%
Basic earnings per Common Share	\$ 1.61	\$ 1.57	\$ 0.04	2.5	%
Diluted earnings per Common Share	\$ 1.60	\$ 1.57	\$ 0.03	1.9	%

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The table below sets forth diluted earnings per share by business segment for AWR's operations:

	Diluted Earnings per Share		
	Year Ended		
	12/31/2015	12/31/2014	CHANGE
Water	\$ 1.19	\$ 1.16	\$ 0.03
Electric	0.07	0.07	—
Contracted services	0.32	0.31	0.01
AWR (parent)	0.02	0.03	(0.01)
Totals from operations, as reported	\$ 1.60	\$ 1.57	\$ 0.03

Water Segment:

For the year ended December 31, 2015, fully diluted earnings per share for the water segment increased by \$0.03 per share to \$1.19 per share, as compared to \$1.16 per share for 2014. The discussion below includes the items which impacted the comparability between the two periods. The discussion excludes the effects of a decrease in water surcharges billed to customers to recover previously incurred costs, which resulted in lower water revenues of approximately \$2.0 million with a corresponding decrease in operating expenses and, therefore, had no impact on operating income.

The water gross margin increased by \$1.2 million primarily as a result of CPUC-approved third-year rate increases and advice letter filings for the completion of certain capital projects not previously included in rates. These increases were partially offset by \$1.4 million of under-collections in the 2015 WRAM not recorded as revenue, as this amount is estimated to not be fully collectable within 24 months following the end of the year under current CPUC amortization guidelines. Under the accounting guidance for alternative revenue programs such as the WRAM, GSWC is required to collect its WRAM balances, net of MCBA, within 24 months following the year in which they are recorded. Due to the state-mandated water-conservation targets, lower water usage has resulted in an increase in under-collections recorded in the 2015 WRAM accounts. Based on the CPUC guidelines, some of GSWC's ratemaking areas will have recovery periods greater than 24 months. This accounting guidance impacts the timing of when WRAM revenues are recorded, but not the collectability; therefore, the \$1.4 million will be recognized as revenue in future periods as it becomes collectable within 24 months.

Excluding supply costs, there was an increase in operating expenses of approximately \$1.0 million due primarily to increases in maintenance costs and depreciation expense. These increases in operating expenses were partially offset by lower other operation-related costs, such as water treatment, mainly as a result of decreases in water usage and pumped water.

An increase in earnings per share for the water segment due to the Company's stock repurchase programs in 2014 and 2015 was partially offset by a decrease in other income, net of other expenses (including interest), of \$637,000 due to a decrease in interest income as well as a decrease in gains on investments held for a retirement benefit plan during 2015.

Electric Segment:

For the years ended December 31, 2015 and 2014, diluted earnings from the electric segment were \$0.07 per share. Third-year rate increases approved by the CPUC were mostly offset by an increase in operating expenses mainly attributable to costs associated with energy-efficiency and solar-initiative programs approved by the CPUC. The costs of these programs have been included in customer rates equally over the rate cycle. The spending of such funds increased in 2015 due to the delay in receiving the final decision in November 2014 of the BVES rate case, which authorized these programs.

Contracted Services Segment:

For the year ended December 31, 2015, diluted earnings from contracted services were \$0.32 per share, compared to \$0.31 per share for the same period in 2014. Impacting the comparability between the two periods were the following items:

• An increase of \$2.6 million in operations and maintenance ("O&M") management fees in 2015 as a result of successful resolutions of various price redeterminations received during the third quarter of 2015. These price

redeterminations included an increase of \$1.2 million in retroactive O&M management fees, as compared to the retroactive impact for the price redeterminations received in the same period of 2014.

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• An increase in operating expenses of \$2.0 million primarily due to an increase in labor, insurance and other outside services costs.

• An overall decrease in construction activity reducing pretax operating income by approximately \$2.0 million due to significant work on several larger projects being substantially completed during 2014, which did not recur in 2015.

• An increase in earnings per share due to the Company's stock repurchase programs, as well as a reduction in state income taxes, which vary among the jurisdictions in which it operates.

AWR (parent):

Diluted earnings from AWR (parent) decreased \$0.01 per share as compared to the same period in 2014 due primarily to higher state income taxes.

The following discussion and analysis for the years ended December 31, 2015 and 2014 provides information on AWR's consolidated operations and assets and, where necessary, includes specific references to AWR's individual segments and subsidiaries: GSWC and ASUS and its subsidiaries.

Operating Revenues

Water

For the year ended December 31, 2015, revenues from water operations increased by \$1.8 million to \$328.5 million, compared to \$326.7 million for the year ended December 31, 2014. The increase in water revenues was primarily due to CPUC-approved third-year rate increases effective January 1, 2015 for certain rate-making areas and CPUC-approved increases generated from advice letter filings. There were also CPUC-approved increases in rates implemented during the second and third quarters of 2014 specifically intended to cover increases in supply costs experienced in certain rate-making areas, increasing revenues by \$2.9 million for the year ended December 31, 2015 as compared to the same period in 2014. This increase in revenues was offset by a corresponding increase in supply cost, resulting in no impact to pretax operating income.

These increases were partially offset by a \$2.0 million decrease in surcharges during the year ended December 31, 2015 to recover previously incurred costs approved by the CPUC. Most of these surcharges were implemented in 2013 and expired during 2014. The decrease in revenues from these surcharges was offset by a corresponding decrease in operating expenses (primarily administrative and general) resulting in no impact to pretax operating income.

Billed water consumption for the year ended December 31, 2015 decreased by approximately 16% as compared to the same period in 2014. In general, changes in consumption do not have a significant impact on recorded revenues due to the CPUC-approved WRAM accounts in place in all three water regions. However, under the accounting guidance for alternative revenue programs such as the WRAM, significant decreases in consumption may impact the timing of when revenues are recorded. During the fourth quarter of 2015, GSWC did not record \$1.4 million of the 2015 WRAM under-collection balance as revenue, as previously discussed. GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC in the WRAM accounts as regulatory assets or liabilities.

Electric

For the year ended December 31, 2015, revenues from electric operations increased by \$1.6 million to \$36.0 million as compared to \$34.4 million for the year ended December 31, 2014. In November 2014, the CPUC issued a final decision on BVES's general rate case, which set new rates for years 2013—2016. The new rates were retroactive to January 1, 2013. The newly adopted revenues for the years 2013 through 2016 are lower than revenues in the previous rate cycle resulting from a revised return on equity of 9.95%, as well as lower depreciation and certain other operating expenses. As a result of the final decision, a cumulative reduction in revenues was recorded during the fourth quarter of 2014, along with a cumulative reduction in depreciation expense. The impact of the retroactive effect of the new rates to BVES's 2014 net earnings was not significant. However, because the new rates were retroactive to January 1, 2013, a portion of the retroactive adjustment recorded during the fourth quarter of 2014 related to 2013. Excluding the impact of 2013's retroactive adjustment, electric revenues increased by approximately \$500,000 in 2015 as compared

to 2014 due primarily to the CPUC-approved third-year rate increases effective January 1, 2015 and the CPUC-approved increases generated from advice letter filings.

Billed electric usage for the year ended December 31, 2015 increased 5.4% as compared to the same period in 2014. The winters experienced in California during the first and fourth quarters of 2014 were too warm for snowmaking, resulting in less electric usage in the Big Bear area than in 2015. Due to the CPUC-approved base revenue requirement adjustment mechanism, which adjusts base revenues to adopted levels authorized by the CPUC, changes in usage do not have a significant impact on earnings.

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Contracted Services

Revenues from contracted services are composed of construction revenues (including renewal and replacements) and management fees for operating and maintaining the water and/or wastewater systems at various military bases. For the year ended December 31, 2015, revenues from contracted services were \$94.1 million as compared to \$104.7 million for 2014. The decrease was due primarily to the completion of several large capital upgrade projects during 2014 which did not recur in 2015. The decrease in construction revenues was partially offset by an increase in operations and maintenance management fees as a result of successful resolutions of various price redeterminations during the third quarter of 2015, increasing earnings by approximately \$3.0 million as compared to 2014. These price redeterminations also included an increase of \$1.2 million in retroactive operations and maintenance management fees, as compared to the retroactive impact for the price redeterminations received in 2014.

ASUS's subsidiaries continue to enter into U.S. government-awarded contract modifications and agreements with third-party prime contractors for new construction projects at the Military Utility Privatization Subsidiaries. During the third quarter of 2015, the U.S. government awarded ASUS approximately \$50.0 million in new construction projects, much of which was completed during 2016 with the balance carrying into 2017. Similarly, during the third quarter of 2014, the U.S. government awarded ASUS \$27.0 million in new construction projects, the majority of which were completed in 2015. Earnings and cash flows from modifications to the original 50-year contracts with the U.S. government and agreements with third-party prime contractors for additional construction projects may or may not continue in future periods.

Operating Expenses:

Supply Costs

Supply costs accounted for 30.4% and 29.1% of total operating expenses for the years ended December 31, 2015 and 2014, respectively.

The table below provides the amounts (in thousands) of increases (decreases) and percent changes in water and electric revenues, supply costs and gross margins during the years ended December 31, 2015 and 2014:

	Year Ended 12/31/2015	Year Ended 12/31/2014	\$ CHANGE	% CHANGE	
WATER OPERATING REVENUES (1)	\$ 328,511	\$ 326,672	\$ 1,839	0.6	%
WATER SUPPLY COSTS:					
Water purchased (1)	62,726	57,790	4,936	8.5	%
Power purchased for pumping (1)	8,988	10,700	(1,712)	-16.0	%
Groundwater production assessment (1)	13,648	16,450	(2,802)	-17.0	%
Water supply cost balancing accounts (1)	3,623	1,378	2,245	162.9	%
TOTAL WATER SUPPLY COSTS	\$ 88,985	\$ 86,318	\$ 2,667	3.1	%
WATER GROSS MARGIN (2)	\$ 239,526	\$ 240,354	\$ (828)	-0.3	%
ELECTRIC OPERATING REVENUES (1)	\$ 36,039	\$ 34,387	\$ 1,652	4.8	%
ELECTRIC SUPPLY COSTS:					
Power purchased for resale (1)	10,395	9,649	746	7.7	%
Electric supply cost balancing accounts (1)	4,162	4,968	(806)	-16.2	%
TOTAL ELECTRIC SUPPLY COSTS	\$ 14,557	\$ 14,617	\$ (60)	-0.4	%
ELECTRIC GROSS MARGIN (2)	\$ 21,482	\$ 19,770	\$ 1,712	8.7	%

As reported on AWR's Consolidated Statements of Income, except for supply-cost balancing accounts. The sums of water and electric supply-cost balancing accounts in the table above is shown on AWR's Consolidated (1) Statements of Income and totaled \$7.8 million and \$6.3 million for the years ended December 31, 2015 and 2014, respectively. Revenues include surcharges, which increase both revenues and operating expenses by corresponding amounts, thus having no net earnings impact.

- (2) Water and electric adjusted gross margins do not include depreciation and amortization, maintenance, administrative and general, property and other taxes, and other operation expenses.

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The overall actual percentages for purchased water for the years ended December 31, 2015 and 2014 were 41% and 35%, respectively, as compared to the adopted percentages of 36% and 35%, respectively. The increase in the supply mix was due to several wells being temporarily out of service during 2015, resulting in an increase in purchased water as compared to pumped water.

Purchased water costs for the year ended December 31, 2015 increased by 8.5% to \$62.7 million as compared to \$57.8 million for the same period in 2014 primarily due to an increase of purchased water in the supply mix as a result of wells being out of service, and an increase in wholesale water costs as compared to the year ended December 31, 2014. These increases were partially offset by a lower volume of water purchased due to lower water consumption.

For the year ended December 31, 2015, the cost of power purchased for pumping decreased to \$9.0 million as compared to \$10.7 million for the same period in 2014 primarily due to decreases in pumped water resulting from lower water consumption and an increase in purchased water. Groundwater production assessments were \$13.6 million in 2015 as compared to \$16.5 million in 2014 due to a decrease in well production resulting from several wells being out of service during 2015 as compared to 2014.

The water-supply-cost balancing account increased \$2.2 million during the year ended December 31, 2015 as compared to the same period in 2014 due to rates implemented in mid-2014 specifically intended to cover increases in supply costs for certain rate-making areas. This increase in revenues was offset by a corresponding increase in the water-supply-cost balancing account, resulting in no impact to the water gross dollar margin. There was also an increase due to lower customer water usage during 2015 as compared to 2014. These increases in the water-supply-cost balancing account were partially offset by increases in water vendor rates and an increase in purchased water in the water supply mix as compared to 2014.

For the year ended December 31, 2015, the cost of power purchased for resale to BVES's customers increased to \$10.4 million, as compared to \$9.6 million for the year ended December 31, 2014, due to an increase in customer usage during the year ended December 31, 2015, partially offset by a decrease in the average price per MWh. Customer usage increased 5.4% as compared to the year ended December 31, 2014. The average price per MWh, including fixed costs, decreased from \$65.78 per MWh for the year ended December 31, 2014 to \$68.21 per MWh for the same period in 2015. The electric-supply-cost balancing account included in total supply costs decreased by \$806,000 primarily due to a decrease in supply cost surcharges, which have no impact on pretax operating income.

Other Operation

For the years ended December 31, 2015 and 2014, other operation expenses by segment consisted of the following (dollar amounts in thousands):

	Year Ended 12/31/2015	Year Ended 12/31/2014	\$ CHANGE	% CHANGE	
Water Services	\$ 21,961	\$ 22,871	\$ (910)	-4.0	%
Electric Services	2,931	2,677	254	9.5	%
Contracted Services	3,537	2,740	797	29.1	%
Total other operation	\$ 28,429	\$ 28,288	\$ 141	0.5	%

Excluding an overall reduction of \$286,000 in billed surcharges, which have no impact on earnings, other operation expenses at the utility segments decreased by \$370,000 during the year ended December 31, 2015 as compared to the same period in 2014. The decrease was due primarily to lower water treatment costs as a result of lower water consumption as well as a higher amount of filter replacements performed in 2014, and a reduction in materials and supplies and bad debt expenses at the water segment. These decreases were partially offset by an increase in drought-related costs at the water segment and labor-related expenses at the electric segment. In April 2015, as a

response to ongoing drought conditions, the Governor of California issued an executive order mandating an overall 25% reduction in water usage as compared to 2013. GSWC has been authorized by the CPUC to track incremental drought-related costs incurred in a memorandum account for possible future recovery. In February 2017, the memorandum account was approved for recovery by the CPUC.

For the year ended December 31, 2015, other operation expenses for the contracted services segment increased by \$797,000 as compared to the same period in 2014 primarily due to a shift in labor costs to operation-related activities from administrative and general activities.

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Administrative and General

For the years ended December 31, 2015 and 2014, administrative and general expenses by segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Year Ended 12/31/2015	Year Ended 12/31/2014	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 55,977	\$ 57,729	\$ (1,752)	-3.0	%
Electric Services	8,900	8,085	815	10.1	%
Contracted Services	14,929	12,406	2,523	20.3	%
AWR (parent)	11	48	(37)	-77.1	%
Total administrative and general	\$ 79,817	\$ 78,268	\$ 1,549	2.0	%

Excluding an overall reduction of \$1.7 million in billed surcharges, which have no impact on earnings, administrative and general expenses for the water services segment decreased slightly during the year ended December 31, 2015 as compared to the same period in 2014. Lower employee-related costs were mostly offset by increases in legal and other outside services costs primarily related to condemnation activities. Legal and outside services costs tend to fluctuate and are expected to continue to fluctuate.

Excluding an overall reduction of \$96,000 in billed surcharges, which have no impact on earnings, administrative and general expenses for the electric services segment increased by \$911,000 during the year ended December 31, 2015 as compared to the same period in 2014 due primarily to an increase in costs associated with energy-efficiency and solar-initiative programs approved by the CPUC. The costs of these programs have been included in customer rates equally over the rate cycle. The spending of such funds increased in 2015 due to the delay in receiving the final decision in November 2014 of the BVES rate case, which authorized these programs.

For the year ended December 31, 2015, administrative and general expenses for contracted services increased by \$2.5 million primarily due to a shift in labor and other indirect costs to administrative and general-related activities, in support of various functions at ASUS, from construction-related activities. There was also an increase in insurance and other outside services costs, as compared to the same period in 2014.

Depreciation and Amortization

For the years ended December 31, 2015 and 2014, depreciation and amortization by segment consisted of the following (dollar amounts in thousands):

	Year Ended 12/31/2015	Year Ended 12/31/2014	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 39,190	\$ 38,388	\$ 802	2.1	%
Electric Services	1,703	1,466	237	16.2	%
Contracted Services	1,140	1,219	(79)	-6.5	%
Total depreciation and amortization	\$ 42,033	\$ 41,073	\$ 960	2.3	%

For the year ended December 31, 2015, depreciation and amortization expense for the utility segments increased by \$1.0 million resulting primarily from additions to utility plant during 2014.

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Maintenance

For the years ended December 31, 2015 and 2014, maintenance expense by segment consisted of the following (dollar amounts in thousands):

	Year Ended 12/31/2015	Year Ended 12/31/2014	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 13,935	\$ 13,067	\$ 868	6.6	%
Electric Services	758	878	(120)	-13.7	%
Contracted Services	2,192	2,147	45	2.1	%
Total maintenance	\$ 16,885	\$ 16,092	\$ 793	4.9	%

For the year ended December 31, 2015, maintenance expense for water services increased by \$868,000 compared to the year ended December 31, 2014 due to higher levels of both planned and unplanned maintenance performed in 2015.

For the year ended December 31, 2015, maintenance expense for electric services decreased by \$120,000 due to a higher level of expenses related to unplanned maintenance and tree trimming performed in 2014.

Property and Other Taxes

For the years ended December 31, 2015 and 2014, property and other taxes by segment, consisted of the following (dollar amounts in thousands):

	Year Ended 12/31/2015	Year Ended 12/31/2014	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 14,250	\$ 14,285	\$ (35)	-0.2	%
Electric Services	994	936	58	6.2	%
Contracted Services	1,392	1,501	(109)	-7.3	%
Total property and other taxes	\$ 16,636	\$ 16,722	\$ (86)	-0.5	%

For the year ended December 31, 2015, property and other taxes for contracted services decreased by \$109,000 due to lower gross receipts taxes primarily resulting from the elimination of such taxes in North Carolina effective July 1, 2014.

ASUS Construction

For the year ended December 31, 2015, construction expenses for contracted services were \$52.8 million, decreasing by \$12.6 million compared to the same period in 2014 due primarily to significant work on several larger projects being substantially completed during 2014, which did not recur in 2015. In addition, there was a higher amount of internal labor incurred for administrative and general-related activities, while in 2014 such labor was incurred for construction activities.

Interest Expense

For the years ended December 31, 2015 and 2014, interest expense by segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Year Ended 12/31/2015	Year Ended 12/31/2014	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 19,898	\$ 20,260	\$ (362)	-1.8	%
Electric Services	1,100	1,264	(164)	-13.0	%
Contracted Services	33	151	(118)	-78.1	%
AWR (parent)	57	(58)	115	-198.3	%
Total interest expense	\$ 21,088	\$ 21,617	\$ (529)	-2.4	%

Overall, interest expense for the year ended December 31, 2015 decreased by \$529,000 as compared to the same period in 2014 due largely to an increase in capitalized interest at the water segment resulting from the approval of an allowance for funds used during construction from advice letter filings approved by the CPUC during the first quarter of 2015. In addition, GSWC replaced \$15.0 million of certain long-term notes during the fourth quarter of 2014 with a note that bears a lower interest rate.

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Interest Income

For the years ended December 31, 2015 and 2014, interest income by segment, including AWR (parent) consisted of the following (dollar amounts in thousands):

	Year Ended 12/31/2015	Year Ended 12/31/2014	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 430	\$ 890	\$ (460)	-51.7	%
Electric Services	10	4	6	150.0	%
Contracted Services	7	9	(2)	-22.2	%
AWR (parent)	11	24	(13)	-54.2	%
Total interest income	\$ 458	\$ 927	\$ (469)	-50.6	%

Interest income decreased by \$469,000 for the year ended December 31, 2015 as compared to the same period in 2014 due to interest collected on certain outstanding balances owed to GSWC during 2014. There was no similar item in 2015.

Other, net

For the year ended December 31, 2015, other income decreased by \$395,000 primarily due to lower gains recorded on investments held for a retirement benefit plan resulting from recent market conditions as compared to 2014.

Income Tax Expense

For the years ended December 31, 2015 and 2014, income tax expense by segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Year Ended 12/31/2015	Year Ended 12/31/2014	\$	%	
			CHANGE	CHANGE	
Water Services	\$ 30,302	\$ 30,410	\$ (108)	-0.4	%
Electric Services	2,170	1,596	574	36.0	%
Contracted Services	6,069	7,038	(969)	-13.8	%
AWR (parent)	(810)	(996)	186	-18.7	%
Total income tax expense	\$ 37,731	\$ 38,048	\$ (317)	-0.8	%

Consolidated income tax expense for the year ended December 31, 2015 decreased by \$317,000 due primarily to a decrease in pretax income. AWR's consolidated effective income tax rate ("ETR") was 38.4% for the years ended December 31, 2015 and 2014. The ETR for GSWC was 40.6% for 2015 as compared to 40.1% for 2014 due primarily to differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements, and permanent differences such as deductions related to production activities. The increase in ETR for GSWC was partially offset by a lower ETR at the contracted services segment due mostly to lower state taxes, which vary among the jurisdictions in which it operates.

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Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that are important to the portrayal of AWR's financial condition, results of operations and cash flows, and require the most difficult, subjective or complex judgments of AWR's management. The need to make estimates about the effect of items that are uncertain is what makes these judgments difficult, subjective and/or complex. Management makes subjective judgments about the accounting and regulatory treatment of many items. The following are accounting policies that are critical to the financial statements of AWR. For more information regarding the significant accounting policies of Registrant, see Note 1 of "Notes to Financial Statements" included in Part II, Item 8, in Financial Statements and Supplementary Data.

Accounting for Rate Regulation — Because Registrant operates extensively in a regulated business, it is subject to the authoritative guidance for accounting for the effects of certain types of regulation. Application of this guidance requires accounting for certain transactions in accordance with regulations adopted by the regulatory commissions of the states in which rate-regulated operations are conducted. Utility companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the ratemaking process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

Regulation and the effects of regulatory accounting have the most significant impact on the financial statements of Registrant. When GSWC files for adjustments to rates, the capital assets, operating costs and other matters are subject to review, and disallowances may occur. In the event that a portion of the Registrant's operations is no longer subject to the accounting guidance for the effects of certain types of regulation, Registrant is required to write off related regulatory assets that are not specifically recoverable and determine if other assets might be impaired. If the CPUC determines that a portion of the Registrant's assets are not recoverable in customer rates, Registrant is required to determine if it has suffered an asset impairment that would require a write-down in the asset valuation. At December 31, 2016, the consolidated balance sheet included net regulatory assets of approximately \$146.3 million. Management continually evaluates the anticipated recovery of regulatory assets, liabilities, and revenues subject to refund and will provide for allowances and/or reserves as necessary. In the event that Registrant's assessment as to the probability of the inclusion in the ratemaking process is incorrect, the associated regulatory asset or liability will be adjusted to reflect the change in assessment or the impact of regulatory approval of rates. Reviews by the CPUC may also result in additional regulatory liabilities to refund previously collected revenues to customers if the CPUC disallows costs included in the ratemaking process.

Registrant also reviews its utility plant in service for possible impairment in accordance with accounting guidance for regulated entities for abandonments and disallowances of plant costs.

Revenue Recognition — GSWC records water and electric utility operating revenues when the service is provided to customers. Operating revenues include unbilled revenues that are earned (i.e., the service has been provided) but not billed by the end of each accounting period. Unbilled revenues are calculated based on the number of days and total usage from each customer's most recent billing record that was billed prior to the end of the accounting period and is used to estimate unbilled consumption as of the year-end reporting period. Unbilled revenues are recorded for both monthly and bi-monthly customers.

The CPUC granted GSWC the authority to implement revenue decoupling mechanisms through the adoption of the Water Revenue Adjustment Mechanism ("WRAM") and the Base Revenue Requirement Adjustment Mechanism ("BRRAM"). With the adoption of these alternative revenue programs, GSWC adjusts revenues in the WRAM and BRRAM for the difference between what is billed to its regulated customers and that which is authorized by the CPUC.

As required by the accounting guidance for alternative revenue programs, GSWC is required to collect its WRAM and BRRAM balances within 24 months following the year in which they are recorded. The CPUC has set the recovery period for under-collected balances that are up to 15% of adopted annual revenues at 18 months or less. For net WRAM under-collected balances greater than 15%, the recovery period is 19 to 36 months. As a result of the accounting guidance and CPUC-adopted recovery periods, Registrant must estimate if any WRAM and BRRAM revenues will be collected beyond the 24-month requirement, which can affect the timing of when such revenues are recognized.

Revenues for operations and maintenance contracts are recognized when services have been rendered to the U.S. government pursuant to 50-year contracts. Revenues from construction activities are recognized based on either the percentage-of-completion or cost-plus methods of accounting. In accordance with GAAP, revenue recognition under these methods requires management to estimate the progress toward completion on a contract in terms of efforts (such as costs incurred) or, in the case of the percentage-of-completion method, in terms of results achieved (such as units constructed).

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These approaches are used because management considers it to be the best available measure of progress on these contracts. Changes in job performance, job conditions, change orders and estimated profitability, including those arising from any contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Unbilled receivables from the U.S. government represent amounts to be billed for construction work completed and/or for services rendered pursuant to the 50-year contracts with the U.S government, which are not presently billable but which will be billed under the terms of the contracts.

Income Taxes — Registrant's income tax calculations require estimates due principally to the regulated nature of the operations of GSWC, the multiple states in which Registrant operates, and potential future tax rate changes. Registrant uses the asset and liability method of accounting for income taxes under which deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. Changes in regulatory treatment, or significant changes in tax-related estimates, assumptions or law, could have a material impact on the financial position and results of operations of Registrant.

As a regulated utility, GSWC treats certain temporary differences as flow-through adjustments in computing its income tax expense consistent with the income tax approach approved by the CPUC for ratemaking purposes. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting decrease or increase occurring in another period. Giving effect to these temporary differences as flow-through adjustments typically results in a greater variance between the effective tax rate and the statutory federal income tax rate in any given period than would otherwise exist if GSWC were not required to account for its income taxes as a regulated enterprise. As of December 31, 2016, Registrant's total amount of unrecognized tax benefits was zero.

Pension Benefits — Registrant's pension benefit obligations and related costs are calculated using actuarial concepts within the framework of accounting guidance for employers' accounting for pensions and post-retirement benefits other than pensions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these critical assumptions annually. Other assumptions include employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase. The discount rate enables Registrant to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality, long-term corporate bond rate. Registrant's discount rates were determined by considering the average of pension yield curves constructed using a large population of high-quality corporate bonds. The resulting discount rates reflect the matching of plan liability cash flows to the yield curves. A lower discount rate increases the present value of benefit obligations and increases periodic pension expense. Conversely, a higher discount rate decreases the present value of benefit obligations and decreases periodic pension expense. To determine the expected long-term rate of return on the plan assets, Registrant considers the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on plan assets will increase pension expense. The long-term expected return on plan assets was 7.00% in 2016 and 2015 for the pension plan.

For the pension plan obligation, Registrant decreased the discount rate to 4.44% as of December 31, 2016 from 4.65% as of December 31, 2015 to reflect market interest-rate conditions at December 31, 2016. A 25 basis point decrease in the assumed discount rate would have increased total net periodic pension expense for 2016 by approximately \$735,000, or 17.8%, and would have increased the projected benefit obligation ("PBO") and accumulated benefit obligation ("ABO") at December 31, 2016 by a total of \$6.7 million, or 3.7%. A 25 basis point decrease in the long-term return on pension plan asset assumption would have increased 2016 pension cost by approximately \$351,000, or 8.5%.

In addition, changes in the fair value of plan assets will impact future pension cost and the Plan's funded status. Volatile market conditions can affect the value of AWR's trust established to fund its future long-term pension benefits. Any reductions in the value of plan assets will result in increased future expense, an increase in the underfunded position and increased future contributions.

Previous CPUC decisions in the water and electric general rate cases have authorized GSWC to continue using a two-way balancing account to track differences between the forecasted annual pension expenses adopted in rates and the actual annual expense to be recorded by GSWC in accordance with the accounting guidance for pension costs. As of December 31, 2016, GSWC has a net \$1.3 million under-collection in the two-way pension balancing accounts, consisting of a \$1.9 million under-collection related to the general office and water regions, and a \$617,000 over-collection related to BVES.

Funding requirements for qualified defined benefit pension plans are determined by government regulations. In establishing the contribution amount, Registrant has considered the potential impact of funding-rule changes under the Pension

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Protection Act of 2006. Registrant contributes the minimum required contribution as determined by government regulations or the forecasted annual pension cost authorized by the CPUC and included in customer rates, whichever is higher. In accordance with this funding policy, for 2017 the pension contribution is expected to be approximately \$6.2 million. As previously discussed, any differences between the forecasted annual pension costs in rates and the actual pension costs are included in the two-way pension balancing accounts.

Additionally, our pension plan liabilities are sensitive to changes in interest rates. As interest rates decrease, thereby reducing returns, our liabilities increase, potentially increasing benefit expense and funding requirements. In addition, market factors can affect assumptions we use in determining funding requirements with respect to our pension plan. For example, a relatively modest change in our assumptions regarding discount rates can materially affect our calculation of funding requirements. To the extent that market data compels us to reduce the discount rate used in our assumptions, our benefit obligations could be materially increased.

Changes in demographics, including increased numbers of retirees or increases in life expectancy assumptions may also increase the funding requirements of our obligations related to the pension and other postretirement benefit plans. Mortality assumptions are a critical component of benefit obligation amounts and a key factor in determining the expected length of time for annuity payments. In 2014, the Society of Actuaries ("SOA") released new mortality tables for pension plans. Beginning with 2014, the benefit obligation amounts assume a longer life expectancy of participants as a result of the actuarial update to mortality tables. In 2016, the SOA published updated mortality tables reflecting three additional years of data and refined certain parameters used in developing the 2014 tables. Accordingly, as of December 31, 2016, the benefit obligation amounts reflect updates to the 2014 mortality tables. The updates to the mortality tables, as compared to those used prior to 2014, are expected to increase future annual net periodic costs. Assuming no other changes in actuarial assumptions or plan amendments, the costs over the long term are expected to decrease due to the closure of Registrant's defined benefit pension plan to new employees as of January 1, 2011. Employees hired or rehired after December 31, 2010 are eligible to participate in a defined contribution plan.

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Liquidity and Capital Resources

AWR

Registrant's regulated business is capital intensive and requires considerable capital resources. A portion of these capital resources is provided by internally generated cash flows from operations. AWR anticipates that interest expense will increase in future periods due to the need for additional external capital to fund its construction program, and as market interest rates increase. AWR believes that costs associated with capital used to fund construction at GSWC will continue to be recovered through water and electric rates charged to customers.

AWR funds its operating expenses and pays dividends on its outstanding Common Shares primarily through dividends from GSWC. The ability of GSWC to pay dividends to AWR is restricted by California law. Under these restrictions, approximately \$206.3 million was available for GSWC to pay dividends to AWR on December 31, 2016. Approximately \$57.2 million was available for ASUS to pay dividends to AWR as of December 31, 2016 to the extent that the subsidiaries of ASUS are able to pay dividends in that amount to ASUS under applicable state laws.

When necessary, Registrant obtains funds from external sources in the capital markets and through bank borrowings. Access to external financing on reasonable terms depends on the credit ratings of AWR and GSWC and current business conditions, including that of the water utility industry in general as well as conditions in the debt and equity capital markets. AWR has access to a syndicated credit facility which expires in May 2018. In October 2016, AWR elected to increase the aggregate commitment as permitted under the terms of the facility agreement from \$100.0 million to \$150.0 million. AWR borrows under this facility and provides funds to its subsidiaries, including GSWC, in support of their operations. Any amounts owed to AWR for borrowings under this facility are included in inter-company payables on GSWC's balance sheet. The interest rate charged to GSWC and other affiliates is sufficient to cover AWR's interest cost under the credit facility. As of December 31, 2016, there were \$90.0 million of outstanding borrowings under this facility and \$9.9 million of letters of credit outstanding. As of December 31, 2016, AWR had \$50.1 million available to borrow under the credit facility.

In April 2016, Standard & Poor's Rating Services ("S&P") affirmed the A+ credit rating and stable outlook on both AWR and GSWC. S&P debt ratings range from AAA (highest rating possible) to D (obligation is in default). In December 2016, Moody's Investors Service ("Moody's") affirmed its A2 rating with a stable outlook for GSWC. Securities ratings are not recommendations to buy, sell or hold a security and are subject to change or withdrawal at any time by the rating agency. Registrant believes that AWR's sound capital structure and A+ credit rating, combined with its financial discipline, will enable AWR to access the debt and/or equity markets. However, unpredictable financial market conditions in the future may limit its access or impact the timing of when to access the market, in which case, Registrant may choose to temporarily reduce its capital spending. During 2017, Registrant's company-funded capital expenditures are estimated to be approximately \$110 - \$120 million. If needed, GSWC will issue long-term debt in the near future, depending on market conditions. The proceeds from the debt issuance would be used to pay down short term borrowings and fund a portion of capital expenditures.

AWR's ability to pay cash dividends on its Common Shares outstanding depends primarily upon cash flows from GSWC. AWR intends to continue paying quarterly cash dividends in the future, on or about March 1, June 1, September 1 and December 1, subject to earnings and financial conditions, regulatory requirements and such other factors as the Board of Directors may deem relevant. Registrant has paid dividends on its Common Shares for over 76 consecutive years. On January 31, 2017, AWR's Board of Directors approved a first quarter dividend of \$0.242 per share on AWR's Common Shares. Dividends on the Common Shares will be paid on March 1, 2017 to shareholders of record at the close of business on February 15, 2017.

AWR's Board of Directors approved a stock repurchase program in each of 2014 and 2015, authorizing AWR to repurchase up to 2.45 million shares of AWR's Common Shares. Under these programs, Registrant repurchased

1,905,000 and 545,000 Common Shares on the open market during 2015 and 2014, respectively. Both stock repurchase programs were completed in 2015. The repurchase programs were intended to enable AWR to achieve a consolidated shareholders' equity ratio as a percentage of total capitalization that is more reflective of the current CPUC-authorized equity ratio for GSWC and an equity ratio for ASUS that is more consistent with the government contracting industry.

Cash Flows from Operating Activities:

Cash flows from operating activities have generally generated sufficient cash to fund operating requirements, including a portion of construction expenditures, and pay dividends. Registrant's future cash flows from operating activities are expected to be affected by a number of factors, including utility regulation; infrastructure investment; maintenance expenses; inflation; compliance with environmental, health and safety standards; production costs; customer growth; per customer usage of water and electricity; weather and seasonality; conservation efforts; compliance with local governmental

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requirements, including mandatory restrictions on water use; and required cash contributions to pension and post-retirement plans. Cash flows are also affected by drought-related water conservation efforts by our customers. In addition, future cash flows from contracted services subsidiaries will depend on new business activities, existing operations, the construction of new and/or replacement infrastructure at military bases, timely redetermination, economic price and equitable adjustment of prices and timely collection of payments from the U.S. government and other prime contractors operating at the military bases.

Cash flows from operating activities are primarily generated by net income, adjusted for non-cash expenses such as depreciation and amortization, and deferred income taxes. Cash generated by operations varies during the year. Net cash provided by operating activities was \$96.9 million for the year ended December 31, 2016 as compared to \$95.1 million for the year ended December 31, 2015, and \$163.3 million for the year ended December 31, 2014. The increase was due to surcharges collected during 2016 for the 2015 WRAM under-collection, as well as lower WRAM under-collections recorded during 2016. This was partially offset by a decrease in cash generated by ASUS due to the timing of billing and cash receipts for construction work at military bases, as well as retroactive revenues collected during the year ended December 31, 2015 as compared to 2016. The billings (and cash receipts) for construction work at ASUS generally occur at completion of the work or in accordance with a billing schedule contractually agreed to with the U.S. government and/or other prime contractors. Cash flow from construction-related activities will fluctuate from period to period with such fluctuations representing timing differences of when the work is performed and when the cash is received for payment of such work. The timing of cash receipts and disbursements related to other working capital items also affected the changes in net cash provided by operating activities.

The decrease in operating cash flow during 2015 as compared to 2014 was due, in large part, to a decrease in customer water usage resulting from conservation efforts, which lowered customer billings at GSWC and increased the WRAM regulatory assets. There was also a decrease in cash generated by ASUS due to the timing of billing and cash receipts for construction work at military bases during the year ended December 31, 2015 as compared to the same period in 2014. During the year ended December 31, 2014, cash payments were received for the completion of several large capital upgrade projects that did not recur during the same period in 2015.

Cash Flows from Investing Activities:

Net cash used in investing activities was \$131.2 million for the year ended December 31, 2016 as compared to \$90.1 million used in 2015 and \$74.1 million used in 2014. The capital expenditures incurred in 2016 were consistent with GSWC's capital investment program approved in the water GRC, and were higher than in 2015. Capital expenditures during 2015 were higher than in 2014 due to project delays for several projects at GSWC in 2014 resulting from paving moratoriums, additional paving requirements imposed by local cities and a delay in drilling a well because suitable groundwater was not found in the area. Registrant expects 2017 company-funded capital expenditures to be \$110 - \$120 million.

Registrant invests capital to provide essential services to its regulated customer base, and has an opportunity to earn a fair rate of return on investment. Registrant's infrastructure investment plan consists of both infrastructure renewal programs, where infrastructure is replaced, as needed, and major capital investment projects, where new water treatment and delivery facilities are constructed. GSWC may also be required from time to time to relocate existing infrastructure in order to accommodate local infrastructure improvement projects. Projected capital expenditures and other investments are subject to periodic review and revision.

ASUS funds its operating expenses primarily through internal operating sources, which include U.S. government funding under 50-year contracts for operations and maintenance costs and construction activities, as well as loans from AWR. ASUS, in turn, provides funding to its subsidiaries.

Cash used for other investments consists primarily of cash invested in a trust for a retirement benefit plan.

Cash Flows from Financing Activities:

Registrant's financing activities include primarily: (i) the sale proceeds from, and repurchase of, Common Shares and stock option exercises and short-term and long-term debt; (ii) the issuance and repayment of long-term debt and notes payable to banks; and (iii) the payment of dividends on Common Shares. In order to finance new infrastructure, Registrant also receives customer advances (net of refunds) for, and contributions in aid of, construction. Short-term borrowings are used to fund capital expenditures until long-term financing is arranged.

Net cash provided from financing activities was \$30.3 million for the year ended December 31, 2016 as compared to cash used in financing activities of \$76.6 million and \$51.4 million for the same periods in 2015 and 2014, respectively. The increase in cash was due to an increase in short-term borrowings under Registrant's revolving credit line during 2016. The borrowings were used to fund operations and a portion of capital expenditures during 2016. There was also an increase in cash

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receipts from advances for, and contributions in aid of, construction as compared to 2015. The amount of cash receipts from advances for, and contributions in aid of, construction will fluctuate from period to period depending on the level of activities from developers.

The cash used in financing activities during 2015 and 2014 was primarily due to the repurchase of approximately \$72.9 million and \$17.2 million, respectively, in AWR Common Shares as part of the stock repurchase programs approved by the Board of Directors. Additionally, GSWC repaid \$21.3 million of long-term debt, including the redemption of \$15 million in certain long-term notes, in 2014.

GSWC

GSWC funds the majority of its operating expenses, payments on its debt, and dividends on its outstanding common shares and a portion of its construction expenditures through internal sources. Internal sources of cash flow are provided primarily by retention of a portion of earnings from operating activities. Internal cash generation is influenced by factors such as weather patterns, conservation efforts, environmental regulation, litigation, deferred taxes, changes in supply costs and regulatory decisions affecting GSWC's ability to recover these supply costs, timing of rate relief, increases in maintenance expenses and capital expenditures, surcharges authorized by the CPUC to enable GSWC to recover expenses previously incurred from customers and CPUC requirements to refund amounts previously charged to customers. As previously discussed, GSWC has been authorized by the CPUC to track incremental drought-related costs incurred in a memorandum account for possible future recovery.

GSWC may, at times, utilize external sources, including equity investments and short-term borrowings from AWR, and long-term debt to help fund a portion of its construction expenditures. In addition, GSWC receives advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are generally refundable at a rate of 2.5% in equal annual installments over 40 years. Amounts which are no longer refundable are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from rate base. Generally, GSWC amortizes contributions in aid of construction at the same composite rate of depreciation for the related property.

As is often the case with public utilities, GSWC's current liabilities may at times exceed its current assets. Management believes that internally generated funds along with the proceeds from the issuance of long-term debt, borrowings from AWR and Common Shares issuances to AWR will be adequate to provide sufficient capital to enable GSWC to maintain normal operations and to meet its capital and financing requirements pending recovery of costs in rates.

Cash Flows from Operating Activities:

Net cash provided by operating activities was \$101.3 million for the year ended December 31, 2016 as compared to \$97.5 million and \$132.7 million for the same periods in 2015 and 2014, respectively. The increase was due to surcharges collected during 2016 for the 2015 WRAM under-collection, as well as lower WRAM under-collections recorded during 2016. The timing of cash receipts and disbursements related to working capital items affected the changes in net cash provided by operating activities.

The decrease in 2015 compared to 2014 is primarily due to a decrease in customer water usage resulting from conservation efforts, which lowered customer billings and increased the WRAM regulatory assets. This was partially offset by lower income tax payments made during 2015 mainly due to the implementation of new tax repair regulations during the fourth quarter of 2014.

Cash Flows from Investing Activities:

Net cash used in investing activities was \$129.3 million for the year ended December 31, 2016 as compared to \$89.0 million and \$72.0 million for the same periods in 2015 and 2014, respectively. As previously discussed, the capital

expenditures incurred in 2016 and 2015 were consistent with GSWC's capital investment program. Capital expenditures were lower during 2014 due to project delays for several projects at GSWC. Registrant expects 2017 company-funded capital expenditures to be between \$110 and \$120 million. During the years ended December 31, 2016, 2015 and 2014, GSWC had capital expenditures of \$127.9 million, \$86.1 million and \$70.9 million, respectively.

During 2013, GSWC executed an interest-bearing note from AWR which expires in May 2018, whereby AWR may borrow up to \$20.0 million for working capital purposes. This amount was increased to \$40.0 million in 2015. During 2016, there were no amounts borrowed under this note. During 2015, AWR temporarily borrowed \$20.7 million from GSWC, all of

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which was repaid during 2015. During 2014, AWR temporarily borrowed \$8.3 million from GSWC, all of which was repaid during 2014.

Cash Flows from Financing Activities:

Net cash provided from financing activities was \$25.7 million for the year ended December 31, 2016 as compared to cash used of \$50.0 million and \$54.6 million for the same periods in 2015 and 2014, respectively. The increase in cash provided by financing activities was due to an increase in proceeds from inter-company borrowings from AWR of \$49.5 million to fund operations and a portion of capital expenditures. There was also an increase in cash receipts from advances for, and contributions in aid of, construction as compared to 2015. The cash used by GSWC in financing activities during 2015 and 2014 was to pay dividends paid to AWR to help fund the stock repurchase programs. Additionally, GSWC repaid \$21.3 million of long-term debt, including the redemption of \$15 million in certain long-term notes, in 2014. These increases in cash used in financing activities were partially offset by proceeds from inter-company borrowings from AWR of \$12.0 million in 2015.

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Contractual Obligations, Commitments and Off-Balance-Sheet Arrangements

Registrant has various contractual obligations which are recorded as liabilities in the consolidated financial statements. Other items, such as certain purchase commitments and operating leases are not recognized as liabilities in the consolidated financial statements, but are required to be disclosed. In addition to contractual maturities, Registrant has certain debt instruments that contain annual sinking fund or other principal payments. Registrant believes that it will be able to refinance debt instruments at their maturity through public issuance, or private placement, of debt or equity. Annual payments to service debt are generally made from cash flows from operations.

The following table reflects Registrant's contractual obligations and commitments to make future payments pursuant to contracts as of December 31, 2016. All obligations and commitments are obligations and commitments of GSWC unless otherwise noted.

(\$ in thousands)	Payments/Commitments Due by Period (1)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Notes/Debentures (2)	\$187,000	\$ —	\$ —	\$ —	\$ 187,000
Private Placement Notes (3)	123,000	—	40,000	—	83,000
Tax-Exempt Obligations (4)	11,632	143	290	324	10,875
Other Debt Instruments (5)	3,950	187	357	387	3,019
Total AWR Long-Term Debt	\$325,582	\$ 330	40,647	\$ 711	\$ 283,894
Interest on Long-Term Debt (6)	\$297,424	\$ 21,624	\$ 41,012	\$ 37,761	\$ 197,027
Advances for Construction (7)	73,025	3,331	6,662	6,662	56,370
Renewable Energy Credit Agreement (8)	3,550	382	845	1,085	1,238
Purchased Power Contracts (9)	18,062	6,717	11,250	95	—
Capital Expenditures (10)	41,309	41,309	—	—	—
Water Purchase Agreements (11)	5,270	409	818	818	3,225
Operating Leases (12)	8,645	2,451	3,786	1,688	720
Employer Contributions (13)	11,767	6,142	5,625	—	—
SUB-TOTAL	\$459,052	\$ 82,365	\$ 69,998	\$ 48,109	\$ 258,580
Other Commitments (14)	104,333				
TOTAL	\$888,967				

(1) Excludes dividends and facility fees.

(2) The notes and debentures have been issued by GSWC under an Indenture dated September 1, 1993, as amended in December 2008. The notes and debentures do not contain any financial covenants that Registrant believes to be material or any cross default provisions.

(3) GSWC issued private placement notes in the amount of \$28 million pursuant to the terms of note purchase agreements with substantially similar terms. These agreements contain restrictions on the payment of dividends, minimum interest coverage requirements, a maximum debt-to-capitalization ratio and a negative pledge. Pursuant to the terms of these agreements, GSWC must maintain a minimum interest coverage ratio of two times interest expense. In addition, two senior notes in the amount of \$40 million each were issued by GSWC in October 2005 and in March 2009 to CoBank, ACB. A senior note in the amount of \$15 million was issued to The Prudential Insurance Company of America in December 2014. Under the terms of these senior notes, GSWC may not incur any additional debt or pay any distributions to its shareholders if, after giving effect thereto, it would have a debt to capitalization ratio in excess of 0.6667-to-1 or a debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio of more than 8-to-1. GSWC is in compliance with these covenant provisions as of December 31, 2016. GSWC does not currently have any outstanding mortgages or other liens on indebtedness on its properties.

(4) Consists of obligations at GSWC related to (i) a loan agreement supporting \$7.7 million in outstanding debt issued by the California Pollution Control Financing Authority, and (ii) \$3.9 million of obligations with respect to GSWC's 500 acre-foot

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entitlement to water from the State Water Project (“SWP”). These obligations do not contain any financial covenants believed to be material to Registrant or any cross default provisions. In regards to its SWP entitlement, GSWC has entered into agreements with various developers for a portion of its 500 acre-foot entitlement to water from the SWP.

(5) Consists of (i) \$3.9 million outstanding representing the debt portion of funds received under the American Recovery and Reinvestment Act ("ARRA") for reimbursements of capital costs related to the installation of meters for conversion of non-metered service to metered service in GSWC's Arden-Cordova District, and (ii) \$54,000 outstanding under a variable rate obligation of GSWC incurred to fund construction of water delivery facilities with the Three Valleys Municipal Water District. These obligations do not contain any financial covenants believed to be material to Registrant or any cross default provisions.

(6) Consists of expected interest expense payments based on the assumption that GSWC’s long-term debt remains outstanding until maturity. Current interest rates were used to estimate expected interest expense payments on variable-rate long-term debt.

(7) Advances for construction represent annual contract refunds by GSWC to developers for the cost of water systems paid for by the developers. The advances are generally refundable in equal annual installments over 40-year periods.

(8) Consists of an agreement by GSWC to purchase a total of 582,000 renewable energy credits through 2023. These renewable energy credits are used by GSWC's electric division to meet California's renewables portfolio standard.

(9) Consists of fixed-cost purchased power contracts effective January 1, 2015 between BVES and Shell Energy North America (US), L.P. and EDF Trading North America, LLC.

(10) Consists of capital expenditures estimated to be required under signed contracts at GSWC.

(11) Water purchase agreements consist of (i) a remaining amount of \$2.7 million under an agreement expiring in 2028 to lease water rights from a third party, and (ii) an aggregate amount of \$2.6 million of other water purchase commitments with other third parties which expire through 2038.

(12) Reflects future minimum payments under noncancelable operating leases for both GSWC and ASUS.

(13) Consists of expected contributions to Registrant's defined benefit pension plan for the years 2017 and 2018. Contribution to the pension plan will be the higher of the minimum required contribution under the Employee Retirement Income Security Act (“ERISA”) or the amounts that are recovered in customer rates and approved by the CPUC. In December 2016, the CPUC approved the water general rate case that will set new rates for the years 2016 - 2018. These expected contributions are estimates and are consistent with the amounts included in customer rates. However, they are subject to change based on, among other things, the limits established for federal tax deductibility (pension plan) and the significant impact that returns on plan assets and changes in discount rates have on such amounts.

(14) Other commitments consist primarily of (i) a \$150.0 million syndicated revolving credit facility, of which \$90.0 million was outstanding as of December 31, 2016, (ii) a \$4.4 million asset retirement obligation of GSWC that reflects the retirement of wells by GSWC, which by law need to be properly capped at the time of removal, (iii) an irrevocable letter of credit in the amount of \$340,000 for the deductible in Registrant’s business automobile insurance policy, (iv) an irrevocable letter of credit issued on behalf of GSWC in the amount of \$585,000 as security for the purchase of power by GSWC under an energy scheduling agreement with Automated Power Exchange, (v) \$5.4 million in letters of credit issued on behalf of GSWC representing a percentage of total ARRA funds received for reimbursement of capital costs related to the installation of meters for conversion of non-metered service to metered service in GSWC’s

Arden-Cordova district, (vi) a \$15,000 irrevocable letter of credit issued on behalf of GSWC pursuant to a franchise agreement with the City of Rancho Cordova, and (vii) an irrevocable letter of credit in the amount of \$3.6 million pursuant to a settlement agreement with Southern California Edison Company to cover GSWC's commitment to pay the settlement amount. All of the letters of credit are issued pursuant to the syndicated revolving credit facility. The syndicated revolving credit facility contains restrictions on prepayments, disposition of property, mergers, liens and negative pledges, indebtedness and guaranty obligations, transactions with affiliates, minimum interest coverage requirements, a maximum debt-to-capitalization ratio, and a minimum debt rating. Pursuant to the credit agreement, AWR must maintain a minimum interest coverage ratio of 3.25 times interest expense, a maximum total funded debt ratio of 0.65-to-1.00 and a minimum debt rating from Moody's or S&P of Baa3 or BBB-, respectively. As of December 31, 2016, AWR was in compliance with these covenants with an interest coverage ratio of 7.07 times interest expense, a debt ratio of 0.46-to-1.00 and debt ratings of A+ and A2.

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Off-Balance-Sheet Arrangements

As noted above, Registrant has various contractual obligations which are recorded as liabilities in the consolidated financial statements. Other items, such as certain purchase commitments and operating leases, are not recognized as liabilities in the consolidated financial statements, but are required to be disclosed. Except for those disclosed above in the table, Registrant does not have any other off-balance-sheet arrangements.

Effects of Inflation

The rates of GSWC are established to provide recovery of costs and a fair return on shareholders' investment. Recovery of the effects of inflation through higher water rates is dependent upon receiving adequate and timely rate increases. However, authorized rates charged to customers are usually based on a forecast of expenses and capital costs for GSWC. Rates may lag increases in costs caused by unanticipated inflation. During periods of moderate to low inflation, as has been experienced for the past several years, the effects of inflation on operating results have not been significant. Furthermore, the CPUC approves projections for a future test year in general rate cases which reduces the impact of inflation to the extent that GSWC's inflation forecasts are accurate.

For the Military Utility Privatization Subsidiaries, under the terms of the contracts with the U.S. government, the contract price is subject to (a) price redetermination every three years after the initial two years of the contract, unless otherwise agreed to by the parties, and include adjustments to reflect changes in operating conditions, as well as inflation in costs, or (b) an economic price adjustment on an annual basis. ASUS has experienced delays in some of its previous redetermination of prices. However, when adjustments are finalized, they are implemented retroactively to the effective date of the price redetermination.

Climate Change

Water:

Based on historical data for greenhouse gas ("GHG") emissions generated from its water operations, GSWC has developed a baseline carbon footprint. Annually, GSWC compares the GHG emissions generated by its water operations to this baseline as part of monitoring its carbon footprint and making efforts to reduce it. Additionally, GSWC's ongoing operations and maintenance activities include, among other things, pump-efficiency-testing programs to monitor the performance of its pumping facilities.

In addition, as part of the planning process, GSWC intends to continue to assess the possible impact climate change may have on its water supply and operations.

Electric:

California has established a cap-and-trade program applicable to GHG emissions. While BVES's power-plant emissions are below the reporting threshold, as a "Covered Entity" BVES has an obligation to file a report in June of each year under the program.

The CPUC has established renewable-energy-procurement-requirement timelines. BVES has entered into a ten-year contract for renewable energy credits that was approved by the CPUC. As a result of this agreement, BVES believes it will be in compliance with both the CPUC's past renewable-energy-procurement requirements and future requirements through at least 2019. However, in addition to a forecasted increase in sales, the passage of Senate Bill 350 in late 2015, includes extending and increasing the renewable energy procurement requirements beyond 2020. As a result, BVES will need to re-examine its renewable supply quantities to ensure continued compliance.

BVES is also required to comply with the CPUC's emission performance standards ("EPS") regarding GHG emissions. Under these standards, BVES must file an annual attestation with the CPUC stating that BVES is in compliance with the EPS. Specifically, BVES must attest to having no new ownership investment in generation facilities or no long-term commitments for generation. In February 2017, BVES filed with the CPUC stating that BVES was in

compliance with the EPS for 2016.

At this time, management cannot estimate the impact, if any, that these regulations may have on the cost of BVES's power plant operations or the cost of BVES's purchased power from third party providers.

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BVES Power-Supply Arrangements

BVES began taking power effective January 1, 2015 at a fixed cost over three and five year terms depending on the amount of power and period during which the power is purchased under contracts approved by the CPUC in December 2015. During 2014, BVES's power purchases were based on month-to-month arrangements, as the previous purchase power contract had expired in 2013.

In addition to the purchased power contracts, BVES buys additional energy to meet peak demand as needed and sells surplus power when necessary. The average cost of power purchased, including fixed costs and the transactions in the spot market, was approximately \$69.54 per MWh for the year ended December 31, 2016 as compared to \$68.21 per MWh for the same period of 2015. BVES's average energy costs are impacted by pricing fluctuations on the spot market. However, BVES has implemented an electric-supply-cost balancing account, as approved by the CPUC, to alleviate any impacts to earnings.

Construction Program

GSWC maintains an ongoing water distribution main replacement program throughout its customer service areas based on the age and type of distribution-system materials, priority of leaks detected, remaining productive life of the distribution system and an underlying replacement schedule. In addition, GSWC upgrades its electric and water supply facilities in accordance with industry standards, local requirements and CPUC requirements. As of December 31, 2016, GSWC has unconditional purchase obligations for capital projects of approximately \$41.3 million. During the years ended December 31, 2016, 2015 and 2014, GSWC had capital expenditures of \$126.0 million, \$95.5 million and \$65.4 million, respectively. A portion of these capital expenditures is funded by developers through advances, which must be repaid, or contributions in aid of construction, which are not required to be repaid. During the years ended December 31, 2016, 2015 and 2014, capital expenditures funded by developers were \$5.3 million, \$4.4 million and \$4.6 million, respectively. During 2017, GSWC's company-funded capital expenditures are estimated to be approximately \$110 - \$120 million.

Contracted Services

Under the terms of the current utility privatization contracts with the U.S. government, each contract's price is subject to (a) price redetermination every three years after the initial two years of the contract, unless otherwise agreed to by the parties, or (b) an economic price adjustment ("EPA") on an annual basis. The ECUS contract and all other new contracts will be economic-price-adjustment contracts. In the event that ASUS (i) is managing more assets at specific military bases than were included in the U.S. government's request for proposal, (ii) is managing assets that are in substandard condition as compared to what was disclosed in the request for proposal, (iii) prudently incurs costs not contemplated under the terms of the utility privatization contract, and/or (iv) becomes subject to new regulatory requirements, such as more stringent water-quality standards, ASUS is permitted to file, and has filed, requests for equitable adjustment ("REA"). The timely filing for and receipt of price redeterminations, EPAs and/or REAs continues to be critical in order for the Military Utility Privatization Subsidiaries to recover increasing costs of operating and maintaining, and renewing and replacing the water and/or wastewater systems at the military bases it serves.

Under the Budget Control Act of 2011 (the "Act"), substantial automatic spending cuts, known as "sequestration," have impacted the expected levels of Department of Defense budgeting. The Military Utility Privatization Subsidiaries have not experienced any earnings impact to their existing operations and maintenance and renewal and replacement services, as utility privatization contracts are an "excepted service" within the Act. While the ongoing effects of sequestration have been mitigated through the passage of a continuing resolution for the fiscal year 2017 Department of Defense budget, similar issues may arise as part of fiscal uncertainty and/or future debt-ceiling-limits imposed by Congress. However, any future impact on ASUS and its operations through the Military Utility Privatization Subsidiaries will likely be limited to the timing of funding to pay for services rendered, delays in the processing of price redeterminations, EPAs and/or REAs, issuance of contract modifications for new construction work not already

funded by the U.S. government, and/or delays in the solicitation and/or awarding of new utility privatization opportunities under the Department of Defense utility privatization program.

The timing of future filings of price redeterminations and/or EPAs may be impacted by government actions, including audits or reviews by the Defense Contract Audit Agency ("DCAA") and/or the Defense Contract Management Agency ("DCMA"). Both DCAA and DCMA may conduct, at the request of a contracting officer, audits/reviews of contractors for compliance with government guidance and regulations such as Federal Acquisition Regulations ("FAR"), Defense Federal Acquisition Regulation Supplements ("DFARS") and, as applicable, Cost Accounting Standards ("CAS"). If the DCAA/DCMA believes ASUS and/or the Military Utility Privatization Subsidiaries have accounted for costs in a manner inconsistent with the requirements of FAR, DFARS or applicable CAS, the auditor may recommend to the U.S. government administrative contracting officer that such costs be disallowed. In addition, certain audit findings such as system deficiencies for

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government-contract-business-system requirements may result in delays in the timing of resolution of price redetermination and/or EPA filings and/or the ability to file new proposals with the U.S. government. Below is a summary of price redetermination, EPA, and REA filings by the Military Utility Privatization Subsidiaries. ASUS is current on all price redetermination and EPA filings for contracts at all of the Military Utility Privatization Subsidiaries.

FBWS - The fourth price redetermination for Fort Bliss, beginning October 1, 2015 and converting to an EPA beginning October 1, 2016, has been agreed to by the contracting officer and a contract modification is expected to be issued in the first quarter of 2017.

- TUS - The EPA for Andrews Air Force Base, covering the period February 2017 through January 2018, was submitted to the government in the fourth quarter of 2016 and provides for an annualized inflationary increase in operations and maintenance and renewal and replacement fees. This filing is expected to be resolved in the first quarter of 2017.

ODUS - The EPA for the Fort Lee privatization contract in Virginia, covering the one-year period beginning February 2016, was finalized in the third quarter of 2016. The EPA for the other bases that ODUS operates in Virginia, covering the one-year period beginning April 2016, was finalized through the issuance of contract modifications in June 2016.

REA filings were made in 2015 to recover costs associated with work done at Joint-Base Langley Eustis, VA, under a new capital upgrade project. The requests covered work that was approved to be performed by the base and involved additional revenue totaling \$630,000. These REA's are expected to be resolved in the third quarter of 2017.

PSUS - The third redetermination for Fort Jackson, covering the period mid-February 2016 through mid-February 2017 and converting to an EPA effective February 2017, was finalized in the third quarter of 2016.

ONUS - The third price redetermination for Fort Bragg, covering the period March 2016 through February 2019, was filed in March 2016 and is expected to be resolved in the first quarter of 2017.

ONUS filed an REA to obtain funding for additional work to be performed in an historical area of Fort Bragg in September 2016. It is expected that this REA will be resolved in the second quarter of 2017.

New Privatization Contract Award:

On July 12, 2016, ASUS was awarded a 50-year contract by the U.S. government to operate, maintain, and provide construction services for the water and wastewater systems at Eglin Air Force Base located in Florida. The initial value of the contract is estimated at approximately \$510 million over the 50-year period and is subject to annual economic price adjustments. This initial value is subject to adjustment based on the results of a joint inventory of assets, which is currently underway. ASUS will assume operations at Eglin Air Force Base in the spring of 2017 following the completion of a transition period currently underway.

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Regulatory Matters

Certificates of Public Convenience and Necessity

GSWC holds Certificates of Public Convenience and Necessity (“CPCN”) granted by the CPUC in each of the ratemaking areas it serves. ASUS is regulated, if applicable, by the state in which it primarily conducts water and/or wastewater operations. FBWS holds a CPCN from the Public Utilities Commission of Texas. The Virginia State Corporation Commission exercises jurisdiction over ODUS as a public service company. The Maryland Public Service Commission approved the right of TUS to operate as a water and wastewater utility at Joint Base Andrews, Maryland, based on certain conditions. The South Carolina Public Service Commission exercises jurisdiction over PSUS as a public service company. ONUS is regulated by the North Carolina Public Service Commission.

Rate Regulation

GSWC is subject to regulation by the CPUC, which has broad authority over service and facilities, rates, classification of accounts, valuation of properties, the purchase, disposition and mortgaging of properties necessary or useful in rendering public utility service, the issuance of securities, the granting of certificates of public convenience and necessity as to the extension of services and facilities and various other matters.

Rates that GSWC is authorized to charge are determined by the CPUC in general rate cases and are derived using rate base, cost of service and cost of capital, as projected for a future test year. Rates charged to customers vary according to customer class and rate jurisdiction and are generally set at levels allowing for recovery of prudently incurred costs, including a fair return on rate base. Rate base generally consists of the original cost of utility plant in service, plus certain other assets, such as working capital and inventory, less accumulated depreciation on utility plant in service, deferred income tax liabilities and certain other deductions.

GSWC is required to file a water general rate case (“GRC”) application every three years according to a schedule established by the CPUC. GRCs typically include an increase in the first test year with inflation-rate adjustments for expenses for the second and third years of the GRC cycle. For capital projects, there are two test years. Rates are based on a forecast of expenses and capital costs for each test year. Electric GRCs are typically filed every four years.

Rates may also be increased by offsets for certain expense increases, including, but not limited to, supply-cost offset and balancing-account amortization, advice letter filings related to certain plant additions and other operating cost increases.

Neither the operations nor rates of AWR and ASUS are directly regulated by the CPUC. The CPUC does, however, regulate certain transactions between GSWC and ASUS and between GSWC and AWR.

Changes in Rates for 2016 and 2017

On December 15, 2016, the CPUC approved a decision in the water GRC for GSWC. GSWC filed a general rate case application in July 2014 for all of its water ratemaking areas and the general office to determine new rates for the years 2016, 2017 and 2018. The new rates approved by the CPUC in the December 15 decision are retroactive to January 1, 2016. However, because of the delay in issuing a decision, the CPUC has ordered GSWC to bypass implementing 2016 rates and to implement 2017 rates once the CPUC has corrected some minor rate calculations in the December 15 decision. Any revenue shortfall due to differences between the actual rates charged in 2016 while the decision was still pending and the final 2016 rates adopted in the December 15 decision will be recovered in a rate surcharge. Once the CPUC approves the minor corrections, the adopted revenue in 2017 is expected to increase by \$2.8 million as compared to 2016 with rates retroactively effective January 1, 2017.

Based on the CPUC decision issued in December, the 2016 adopted revenues were lower than in 2015 due to reductions in: (i) supply costs caused by lower consumption, (ii) depreciation expense resulting from an updated

depreciation study, and (iii) other operating expenses. Among other things, the final decision also authorized 87% of GSWC's capital requests in customer rates, allowed only a portion of the executive incentive programs, approved recovery for certain expenses incurred in prior years that were being tracked in CPUC-authorized memorandum accounts, and adopted sales levels which reflect state-mandated conservation targets that were imposed by the governor of California during the processing of the application. The CPUC also authorized a sales adjustment mechanism for the 2017 and 2018 escalation years, which adjusts adopted WRAM-related sales levels if there is a 10% or more variance (positive or negative) between actual and adopted usage. If actual WRAM-related sales in a given year differ by 10% or more of the adopted WRAM-related sales, the following year's adopted WRAM-related sales are adjusted by one half of the difference. Based on 2016 actual sales, the sales adjustment

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mechanism was triggered in three of GSWC's ratemaking areas, resulting in a downward adjustment to those ratemaking areas' adopted 2017 WRAM-related sales.

In March 2016, the CPUC issued a decision granting a request filed by GSWC to defer BVES's next GRC filing to March 2017. The next GRC filing will be for years 2018 through 2021. Adopted base revenues for 2017 will be based on 2016 adopted base revenues.

Cost of Capital Proceedings for Water Regions

In July 2012, the CPUC issued a decision on GSWC's water cost-of-capital proceeding. Among other things, the decision authorized GSWC to continue the Water Cost of Capital Mechanism ("WCCM"). The WCCM adjusts return on equity ("ROE") and rate of return on rate base between the three-year cost of capital proceedings only if there is a positive or negative change of more than 100 basis points in the average of the Moody's Aa utility bond rate as measured over the period October 1 through September 30. If the average Moody's rate for this period changes by over 100 basis points from the benchmark, the ROE will be adjusted by one half of the difference. Since 2012, there has not been a change by more than 100 basis points from the benchmark. As a result, GSWC's current water ROE of 9.43% remained unchanged through 2016. GSWC is scheduled to file its next cost-of-capital application in March 2017 based on an extension previously granted.

Nipomo Supplemental Water Project

In November 2015, GSWC filed an application to recover the costs of a water supply project intended to deliver water to the Nipomo Mesa area in GSWC's Santa Maria ratemaking area. In February 2016, GSWC and the CPUC's Office of Ratepayer Advocates ("ORA") jointly filed a motion to adopt a settlement, which resolved all of the cost-recovery issues in GSWC's application. In September 2016, the CPUC issued a final decision approving the settlement. Furthermore, the costs of this water project have been included in the CPUC's final decision on the water GRC and were included in Santa Maria's rates retroactive to January 1, 2016.

Other Regulatory Matters

New Service Territory Application, Sutter County:

On June 26, 2014, the CPUC approved a Certificate of Public Convenience and Necessity ("CPCN") application granting GSWC the authority to provide water utility services to an area to be developed near Sacramento, in Sutter County, California, called Sutter Pointe. The CPUC's decision approved a settlement that was jointly filed by GSWC, Sutter County, the Sutter Pointe Developers, and a coalition of Sutter County residents. With the CPUC's approval, GSWC will create a water service district to supply the Sutter Pointe development with groundwater and surface water from the Sacramento River. The project will involve the construction of underground infrastructure and groundwater wells with a treatment plant and storage facility to serve retail, industrial and approximately 17,000 residential customers at final build-out. The decision also sets a cap on the revenue requirement per Sutter Pointe customer during the first two rate cycles. In August 2014, ORA filed an application for rehearing on the CPCN application in regard to the rate cap adopted by the CPUC. In September 2016, the CPUC adopted a settlement reached between GSWC and ORA, which modified the rate cap.

New Service Territory Application, Westborough Development, Sacramento County:

On October 12, 2004, GSWC and Aerojet-General Corporation ("Aerojet") reached a settlement relating to groundwater contamination impacting GSWC's Arden-Cordova Water System. Portions of the settlement called for GSWC to serve new territory, subject to CPUC approval, on property owned by Aerojet known as Westborough. Aerojet and GSWC have been working cooperatively to identify and implement the best alternative to meet the long-term water supply needs of GSWC's Rancho Cordova customers within the Arden-Cordova service area. In August 2016, GSWC entered into agreements with Aerojet and Carmichael Water District (CWD) to provide GSWC with 5000 acre feet per year of treated water from CWD's Bajamont Water Treatment Plant for GSWC's Rancho Cordova customers within the Arden-Cordova service area. GSWC will begin taking delivery of this water in 2017. GSWC and Aerojet will continue to work cooperatively to identify the necessary water resources for the new Westborough development area

owned by Aerojet. The County of Sacramento and the City of Folsom, through various arrangements, have agreed not to protest GSWC's application to the CPUC for a CPCN for this territory.

GSWC intends to file with the CPUC to incorporate the Westborough development in Sacramento County into the Rancho Cordova service area and to provide water service to that new development following completion of a water supply solution for the area.

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Balanced Rates Order Instituting Rulemaking:

In April 2015, the CPUC issued a ruling establishing a second phase to its on-going rulemaking addressing the CPUC's Water Action Plan objective of setting rates that balance investment, conservation, and affordability. The intended purpose of the second phase is to review the CPUC's water-conservation rate structure, tiered rates, forecasting methods, accounting mechanisms and other standards and programs that guide investor-owned water utility rates, charges, and cost recovery. In December 2016, the CPUC issued a final decision on this objective.

Among other things, the final decision retains the WRAM mechanism, and orders Class A California water companies to consider: (i) a sales reconciliation mechanism to adjust forecasted water consumption authorized by the CPUC based on actual consumption, (ii) changing tiered rates to include a very high tiered rate and a super user charge aimed at high-usage customers, (iii) implementing advanced metering infrastructure for all customers, and (iv) shifting more revenue recovery through monthly fixed charges versus quantity charges. GSWC will consider these recommendations as part of its next GRC filing in 2017.

For more information regarding significant regulatory matters, see Note 2 of "Notes to Financial Statements" included in Part II, Item 8, in Financial Statements and Supplementary Data.

Environmental Matters

AWR's subsidiaries are subject to stringent environmental regulations, including the 1996 amendments to the Federal Safe Drinking Water Act.

GSWC is required to comply with the safe drinking water standards established by the U.S. Environmental Protection Agency ("EPA") and the Division of Drinking Water ("DDW"), under the State Water Resources Control Board ("SWRCB"). The EPA regulates contaminants that may have adverse health effects that are known or likely to occur at levels of public health concern, and the regulation of which will provide a meaningful opportunity for health risk reduction. The DDW, acting on behalf of the EPA, administers the EPA's program in California. Similar state agencies administer these rules in the other states in which Registrant operates.

GSWC currently tests its water supplies and water systems according to, among other things, requirements listed in the Federal Safe Drinking Water Act ("SDWA"). GSWC works proactively with third parties and governmental agencies to address issues relating to known contamination threatening GSWC water sources. GSWC also incurs operating costs for testing to determine the levels, if any, of the constituents in its sources of supply and additional expense to treat contaminants in order to meet the federal and state maximum contaminant level ("MCL") standards and consumer demands. GSWC expects to incur additional capital costs as well as increased operating costs to maintain or improve the quality of water delivered to its customers in light of anticipated stress on water resources associated with watershed and aquifer pollution, as well as to meet future water quality standards and consumer expectations. The CPUC ratemaking process provides GSWC with the opportunity to recover prudently incurred capital and operating costs in future filings associated with achieving water quality standards. Management believes that such incurred and expected future costs should be authorized for recovery by the CPUC.

Matters Relating to Environmental Cleanup

GSWC has been involved in environmental remediation and cleanup at a plant site ("Chadron Plant") that contained an underground storage tank which was used to store gasoline for its vehicles. This tank was removed from the ground in July 1990 along with the dispenser and ancillary piping. Since then, GSWC has been involved in various remediation activities at this site.

As of December 31, 2016, the total spent to cleanup and remediate GSWC's plant facility was approximately \$5.2 million, of which \$1.5 million has been paid by the State of California Underground Storage Tank Fund. Amounts paid by GSWC have been included in rate base and approved by the CPUC for recovery. As of December 31, 2016, GSWC has a regulatory asset and an accrued liability for the estimated additional cost of \$1.4 million to complete the cleanup at the site. The estimate includes costs for two years of continued activities of groundwater cleanup and monitoring, future soil treatment, and site closure related activities. The ultimate cost may vary as there are many unknowns in remediation of underground gasoline spills and this is an estimate based on currently available information. Management also believes it is probable that the estimated additional costs will be approved in rate base

by the CPUC.

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Matters Relating to Military Privatization Contracts

Each of the Military Utility Privatization Subsidiaries is responsible for testing the water and wastewater systems on the military bases on which it operates in accordance with applicable law.

Each of the Military Utility Privatization Subsidiaries has the right to seek an equitable adjustment to its contract in the event that there are changes in environmental laws, a change in the quality of water used in providing water service or wastewater discharged by the U.S. government or contamination of the air or soil not caused by the fault or negligence of the Military Utility Privatization Subsidiary. These changes can impact operations and maintenance and renewal and replacement costs under the contracts. The U.S. government is responsible for environmental contamination due to its fault or negligence and for environmental contamination that occurred prior to the execution of a contract.

Security Issues

GSWC has security systems and infrastructure in place intended to prevent cyber-attacks. Despite its efforts, GSWC cannot be assured that a cyber or terrorist attack will not cause water or electric system problems, disrupt service to customers, compromise important data or systems or result in unintended release of customer or employee information.

GSWC periodically revises its Emergency Preparedness Plan and periodically conducts operational emergency exercises for all of its water systems. GSWC also considers advances in security and emergency preparedness technology and relevant industry developments in developing its capital-improvement plans. GSWC intends to seek approval of the CPUC to recover any additional costs that it incurs in enhancing the security, reliability and resiliency of its water systems.

The Military Utility Privatization Subsidiaries operate facilities within the boundaries of military bases which provide limited access to the general public. To further enhance security, in prior years, certain upgrades were completed at various military bases through contract modifications funded by the U.S. government.

Registrant has evaluated its cyber-security systems and is addressing identified areas of improvement with respect to U.S. government regulations regarding cyber-security of government contractors. These improvements include the physical security at all of the office and employee facilities it operates. Registrant anticipates it will be in full compliance with these regulations by the mandated December 31, 2017 deadline.

California Drought

In response to the ongoing drought experienced in California, the SWRCB has taken various actions to ensure reduced water usage throughout the State, and to track reductions by larger urban water suppliers. GSWC has filed appropriate drought contingency plans, or Staged Mandatory Water Conservation and Rationing Plan, with the CPUC to meet the SWRCB requirements. GSWC's water usage reductions have met the SWRCB requirements.

California's ongoing period of drought has resulted in reduced recharge to the state's groundwater basins. GSWC utilizes groundwater from numerous groundwater basins throughout the state. Several of these basins, especially smaller basins, are experiencing dropping groundwater levels. Several of GSWC's service areas rely on groundwater as their only source of supply. Given the critical nature of the groundwater levels in the Central Coast area, GSWC has implemented mandatory water restrictions in certain service areas, moving to higher stages of the Staged Mandatory Water Conservation and Rationing Plan for those areas. Precipitation during January 2017 has been above average for much of the State and may indicate more normal hydrology for 2017. However, should dry conditions persist through the remainder of 2017, areas served by these smaller basins may experience further mandatory conservation measures in the future. In the event of water supply shortages beyond the mandated reductions, GSWC would need to transport additional water from other areas, increasing the cost of water supply.

As of February 14, 2017, the U.S. Drought Monitor estimates approximately 7 percent of California in the rank of "Severe Drought," which is a significant improvement from January 2016 when 86 percent was ranked "Severe Drought."

GSWC's Water Supply

During 2016, GSWC delivered approximately 59,858,000 hundred cubic feet ("ccf") of water to its customers, which is an average of about 376 acre-feet per day. An acre-foot is approximately 435.6 ccf or 326,000 gallons.

Approximately 55% of GSWC's supply came from groundwater production wells situated throughout GSWC's service

areas. Approximately 45% of GSWC's supply came from wholesale purchases from Metropolitan Water District of Southern California ("MWD") member agencies and other regional water suppliers (roughly 40% of total demand) or from authorized diversions from rivers (roughly 5%) under contracts with the United States Bureau of Reclamation ("Bureau") and the Sacramento Municipal Utility District

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("SMUD"). During 2015, GSWC supplied 58,848,000 ccf of water, approximately 65% of which was produced from groundwater sources and 35% was purchased from regional wholesalers or surface water diversions under contracts with the Bureau and SMUD. GSWC continually assesses its water rights and groundwater storage assets.

Groundwater

Groundwater resources play an important role in California, and in GSWC's water supply portfolio specifically. Over the years, increased demands on groundwater resources have resulted in both cooperative and judicially enforced regimes ("adjudicated basins") for managing groundwater basins for long-term sustainability. The 2014 Sustainable Groundwater Management Act established authority for the California Department of Water Resources ("DWR") to, among other things, establish and revise existing basin boundaries and establish regulations to implement Groundwater Sustainability Plans ("GSP") with the objective of improving basin management. The SWRCB has been given authority, among other things, to assist in the establishment of Groundwater Sustainability Agencies ("GSA") for the purpose of developing GSPs, and intervene if local efforts are not successful in the creation of GSAs or GSPs. Adjudicated basins are considered low-priority for further action given they are generally well managed, and it is expected that existing rules governing adjudicated basins will remain in effect. GSWC intends to cooperate to the fullest extent allowed in the development of these GSAs and GSPs in unadjudicated basins from which it pumps to protect its interests in proper management of these groundwater basins. GSWC owns approximately 86,000 acre-feet of adjudicated groundwater and surface water rights, and a number of unadjudicated water rights to help meet supply requirements.

The productivity of GSWC's groundwater resources varies from year to year depending upon a variety of factors, including the amount, duration, length and location of rainfall, the availability of imported replenishment water, the amount of water previously stored in groundwater basins, the amount and seasonality of water use by GSWC's customers and others, evolving challenges to water quality, and a variety of legal limitations on use, if a groundwater basin is, or may be, in an over-drafted condition. GSWC management actively participates in efforts to protect groundwater basins from over-use and from contamination and to protect its water rights. In some periods, these efforts require reductions in groundwater pumping and increased reliance on alternative water resources.

State Water Project

The California State Water Project ("SWP") is a water storage and delivery system operated and maintained by DWR for purposes of delivery of water supplies primarily for urban and agricultural purposes to SWP contract holders. Every year, the DWR establishes the SWP allocation for water deliveries to the state water contractors. DWR generally establishes a percentage allocation of delivery requests based on a number of factors, including weather patterns, snow-pack levels, reservoir levels and biological diversion restrictions. DWR set the delivery allocation at 60% of requests in January 2017. GSWC takes delivery of SWP via water wholesale agencies.

Imported Water

GSWC also manages a portfolio of water supply arrangements with water wholesalers who may import water from outside the immediate service area. For example, GSWC has contracts with various governmental entities (principally MWD's member agencies) and other parties to purchase water through a total of 64 connections for distribution to customers, in addition to numerous emergency connections. MWD is a public agency organized and managed to provide a supplemental, imported supply to its member public agencies. There are 26 such member agencies, consisting of 14 cities, 11 municipal water districts and one county water authority. GSWC has 46 connections to MWD's water distribution facilities and those of member agencies. GSWC purchases MWD water through six separate member agencies aggregating 47,800 acre-feet annually. MWD's principal source of water is the SWP and the Colorado River via the Colorado River Aqueduct.

GSWC has contracts to purchase water or water rights for an aggregate amount of \$5.3 million as of December 31, 2016. Included in the \$5.3 million is a remaining commitment of \$2.7 million under an agreement with the City of Claremont ("the City") to lease water rights that were ascribed to the City as part of the Six Basins adjudication. The initial term of the agreement expires in 2028. GSWC can exercise an option to renew this agreement for 10 additional years. The remaining \$2.6 million are commitments for purchased water with other third parties which expire through 2038.

Potential Additional Sources of Supply

GSWC continues to assess additional water supply opportunities to expand and firm up its water supply portfolio for service to customers. GSWC is actively perusing participation in desalination proposals with Poseidon Resources, imported supplies via Cadiz Inc., as well as various recycled water opportunities.

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Military Utility Privatization Subsidiaries

The U.S. government is responsible for providing the source of supply for all water on each of the bases served by the Military Utility Privatization Subsidiaries at no cost to the Military Utility Privatization Subsidiaries. Once received from the U.S. government, ASUS is responsible for ensuring the continued compliance of the provided source of supply with all Federal, State and local regulations.

New Accounting Pronouncements

Registrant is subject to newly issued requirements as well as changes in existing requirements issued by the Financial Accounting Standards Board. Differences in financial reporting between periods could occur unless and until the CPUC approves such changes for conformity through regulatory proceedings. See Note 1 of Notes to Consolidated Financial Statements.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Registrant is exposed to certain market risks, including fluctuations in interest rates, and commodity price risk primarily relating to changes in the market price of electricity. Market risk is the potential loss arising from adverse changes in prevailing market rates and prices.

Interest Rate Risk

A significant portion of Registrant's capital structure is comprised primarily of fixed-rate debt. Market risk related to our fixed-rate debt is deemed to be the potential increase in fair value resulting from a decrease in interest rates. At December 31, 2016, the fair value of Registrant's long-term debt was \$423.1 million. A hypothetical ten percent decrease in market interest rates would have resulted in a \$16.6 million increase in the fair value of Registrant's long-term debt.

Market risk related to Registrant's variable-rate debt is estimated as the potential decrease in pretax earnings resulting from an increase in interest rates. As of December 31, 2016, Registrant had \$54,000 in variable-interest-rate debt outstanding. A hypothetical one percent rise in interest rates would not result in a material impact to earnings.

At December 31, 2016, Registrant did not believe that its short-term debt was subject to interest-rate risk due to the fair market value being approximately equal to the carrying value.

Commodity/Derivative Risk

BVES is exposed to commodity price risk primarily relating to changes in the market price of electricity. To manage its exposure to energy price risk, BVES from time to time executes purchased power contracts that qualify as derivative instruments, requiring mark-to-market derivative accounting under the accounting guidance for derivatives. A derivative financial instrument or other contract derives its value from another investment or designated benchmark.

In December 2014, the CPUC approved an application, which allowed BVES to immediately execute long-term purchased power contracts with energy providers, which became effective on January 1, 2015. BVES began taking power under these long-term contracts at a fixed cost over three and five year terms depending on the amount of power and period during which the power is purchased under the contracts.

The long-term contracts executed in December 2014 qualify for derivative accounting treatment. Among other things, the CPUC approval in December 2014 also authorized BVES to establish a regulatory asset and liability memorandum account to offset the mark-to-market entries required by the accounting guidance. Accordingly, all unrealized gains and losses generated from these purchased power contracts are deferred on a monthly basis into a non-interest bearing regulatory memorandum account that tracks the changes in fair value of the derivative throughout the term of the contract. As a result, the unrealized gains and losses on these contracts do not impact BVES's earnings. As of December 31, 2016, there was a \$4.9 million unrealized loss in the memorandum account for the new purchased power contracts as a result of a drop in energy prices since the execution of the contract.

Except as discussed above, Registrant has had no other derivative financial instruments, financial instruments with significant off-balance sheet risks or financial instruments with concentrations of credit risk.

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American States Water Company

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CONSOLIDATED BALANCE SHEETS

(in thousands)	December 31,	
	2016	2015
Assets		
Utility Plant		
Regulated utility plant, at cost:		
Water	\$1,514,419	\$1,428,024
Electric	94,009	88,481
Total	1,608,428	1,516,505
Non-regulated utility property, at cost	11,897	11,032
Total utility plant, at cost	1,620,325	1,527,537
Less — accumulated depreciation	(532,753)	(529,698)
	1,087,572	997,839
Construction work in progress	63,354	62,955
Net utility plant	1,150,926	1,060,794
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	20,836	18,710
Total other property and investments	21,952	19,826
Current Assets		
Cash and cash equivalents	436	4,364
Accounts receivable-customers, less allowance for doubtful accounts	19,993	18,940
Unbilled revenue	24,391	19,490
Receivable from U.S. government, less allowance for doubtful accounts	8,467	5,861
Other accounts receivable, less allowance for doubtful accounts	3,151	2,302
Income taxes receivable	17,867	10,793
Materials and supplies	4,294	5,415
Regulatory assets — current	43,296	30,134
Prepayments and other current assets	3,735	3,229
Costs and estimated earnings in excess of billings on contracts	41,245	32,169
Total current assets	166,875	132,697
Regulatory and Other Assets		
Regulatory assets	102,985	102,562
Costs and estimated earnings in excess of billings on contracts	22,687	21,330
Other	5,068	6,750
Total regulatory and other assets	130,740	130,642
Total Assets	\$1,470,493	\$1,343,959

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

Table of ContentsAMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS

(in thousands)	December 31,	
	2016	2015
Capitalization and Liabilities		
Capitalization		
Common shareholders' equity	\$494,297	\$465,945
Long-term debt	320,981	320,900
Total capitalization	815,278	786,845
Current Liabilities		
Notes payable to banks	90,000	28,000
Long-term debt — current	330	312
Accounts payable	43,724	50,585
Income taxes payable	149	68
Accrued other taxes	9,112	8,142
Accrued employee expenses	12,304	11,748
Accrued interest	3,864	3,626
Unrealized loss on purchased power contracts	4,901	7,053
Billings in excess of costs and estimated earnings on contracts	2,263	3,764
Other	11,297	10,209
Total current liabilities	177,944	123,507
Other Credits		
Advances for construction	69,722	68,041
Contributions in aid of construction — net	120,518	117,810
Deferred income taxes	224,530	192,852
Unamortized investment tax credits	1,529	1,612
Accrued pension and other post-retirement benefits	49,856	42,666
Other	11,116	10,626
Total other credits	477,271	433,607
Commitments and Contingencies (Notes 13 and 14)	—	—
Total Capitalization and Liabilities	\$1,470,493	\$1,343,959

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

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CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31,	
(in thousands, except share data)	2016	2015
Common Shareholders' Equity:		
Common Shares, no par value:		
Authorized: 60,000,000 shares		
Outstanding: 36,571,360 shares in 2016 and 36,501,914 shares in 2015	\$247,232	\$245,022
Reinvested earnings in the business	247,065	220,923
	494,297	465,945
Long-Term Debt (All are of GSWC)		
Notes/Debentures:		
6.81% notes due 2028	15,000	15,000
6.59% notes due 2029	40,000	40,000
7.875% notes due 2030	20,000	20,000
7.23% notes due 2031	50,000	50,000
6.00% notes due 2041	62,000	62,000
Private Placement Notes:		
3.45% notes due 2029	15,000	15,000
9.56% notes due 2031	28,000	28,000
5.87% notes due 2028	40,000	40,000
6.70% notes due 2019	40,000	40,000
Tax-Exempt Obligations:		
5.50% notes due 2026	7,730	7,730
State Water Project due 2035	3,902	4,000
Other Debt Instruments:		
Variable Rate Obligation due 2018	54	89
American Recovery and Reinvestment Act Obligation due 2033	3,896	4,034
	325,582	325,853
Less: Current maturities	(330)	(312)
Debt issuance costs	(4,271)	(4,641)
	320,981	320,900
Total Capitalization	\$815,278	\$786,845

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

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CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)	For the years ended December 31,		
	2016	2015	2014
Operating Revenues			
Water	\$302,931	\$328,511	\$326,672
Electric	35,771	36,039	34,387
Contracted services	97,385	94,091	104,732
Total operating revenues	436,087	458,641	465,791
Operating Expenses			
Water purchased	64,442	62,726	57,790
Power purchased for pumping	8,663	8,988	10,700
Groundwater production assessment	14,993	13,648	16,450
Power purchased for resale	10,387	10,395	9,649
Supply cost balancing accounts	(12,206)	7,785	6,346
Other operation	28,257	28,429	28,288
Administrative and general	80,994	79,817	78,268
Depreciation and amortization	38,850	42,033	41,073
Maintenance	16,470	16,885	16,092
Property and other taxes	16,801	16,636	16,722
ASUS construction	53,720	52,810	65,368
Total operating expenses	321,371	340,152	346,746
Operating Income	114,716	118,489	119,045
Other Income and Expenses			
Interest expense	(21,992)	(21,088)	(21,617)
Interest income	757	458	927
Other, net	997	356	751
Total other income and expenses	(20,238)	(20,274)	(19,939)
Income from operations before income tax expense	94,478	98,215	99,106
Income tax expense	34,735	37,731	38,048
Net Income	\$59,743	\$60,484	\$61,058
Weighted Average Number of Shares Outstanding	36,552	37,389	38,658
Basic Earnings Per Common Share	\$1.63	\$1.61	\$1.57
Weighted Average Number of Diluted Shares	36,750	37,614	38,880
Fully Diluted Earnings Per Share	\$1.62	\$1.60	\$1.57
Dividends Paid Per Common Share	\$0.914	\$0.874	\$0.831

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

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CONSOLIDATED STATEMENTS OF CHANGES
IN COMMON SHAREHOLDERS' EQUITY

(in thousands)	Common Shares		Reinvested	
	Number of Shares	Amount	Earnings in the Business	Total
Balances at December 31, 2013	38,721	\$253,961	\$ 238,443	\$492,404
Add:				
Net income			61,058	61,058
Exercise of stock options and other issuance of Common Shares	111	589		589
Tax benefit from employee stock-based awards		533		533
Compensation on stock-based awards		1,508		1,508
Dividend equivalent rights on stock-based awards not paid in cash		197		197
Deduct:				
Repurchase of Common Shares	545	3,589	13,591	17,180
Dividends on Common Shares			32,111	32,111
Dividend equivalent rights on stock-based awards not paid in cash			197	197
Balances at December 31, 2014	38,287	253,199	253,602	506,801
Add:				
Net income			60,484	60,484
Exercise of stock options and other issuance of Common Shares	120	1,198		1,198
Tax benefit from employee stock-based awards		877		877
Compensation on stock-based awards		2,168		2,168
Dividend equivalent rights on stock-based awards not paid in cash		270		270
Deduct:				
Repurchase of Common Shares	1,905	12,690	60,203	72,893
Dividends on Common Shares			32,690	32,690
Dividend equivalent rights on stock-based awards not paid in cash			270	270
Balances at December 31, 2015	36,502	245,022	220,923	465,945
Add:				
Net income			59,743	59,743
Exercise of stock options and other issuance of Common Shares	69	235		235
Tax benefit from employee stock-based awards		581		581
Compensation on stock-based awards		1,201		1,201
Dividend equivalent rights on stock-based awards not paid in cash		193		193
Deduct:				
Dividends on Common Shares			33,408	33,408
Dividend equivalent rights on stock-based awards not paid in cash			193	193
Balances at December 31, 2016	36,571	\$247,232	\$ 247,065	\$494,297

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

Table of ContentsAMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the years ended December 31,		
	2016	2015	2014
Cash Flows From Operating Activities:			
Net income	\$ 59,743	\$ 60,484	\$ 61,058
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	39,109	42,674	41,751
Provision for doubtful accounts	619	870	991
Deferred income taxes and investment tax credits	27,640	10,423	32,316
Stock-based compensation expense	2,538	2,754	2,222
Other — net	(397	) 838	—
Changes in assets and liabilities:			
Accounts receivable — customers	(1,750	) (923	) 3,979
Unbilled revenue	(4,901	) 1,932	(2,870
Other accounts receivable	(1,233	) 1,243	1,029
Receivables from the U.S. government	(2,606	) 848	397
Materials and supplies	1,121	(1,827	) 970
Prepayments and other assets	2,239	1,580	973
Costs and estimated earnings in excess of billings on contracts	(10,433	) (3,223	) 6,159
Regulatory assets	(5,610	) (26,422	) 26,385
Accounts payable	(3,442	) 679	(1,622
Income taxes receivable/payable	(6,993	) 9,630	(11,648
Billings in excess of costs and estimated earnings on contracts	(1,501	) (7,972	) 4,884
Accrued pension and other post-retirement benefits	(289	) 616	(2,356
Other liabilities	3,095	941	(1,348
Net cash provided	96,949	95,145	163,270
Cash Flows From Investing Activities:			
Capital expenditures	(129,867	) (87,323	) (72,553
Other investments	(1,354	) (2,869	) (1,568
Proceeds from sale of property	—	54	62
Net cash used	(131,221	) (90,138	) (74,059
Cash Flows From Financing Activities:			
Proceeds from stock option exercises	235	1,198	589
Repurchase of Common Shares	—	(72,893	) (17,180
Tax benefits from stock-based awards	581	877	533
Receipt of advances for and contributions in aid of construction	6,660	3,731	7,598
Refunds on advances for construction	(3,921	) (3,660	) (3,469
Retirement or repayments of long-term debt	(313	) (237	) (21,287
Proceeds from issuance of long-term debt, net of issuance costs	—	—	14,846
Net change in notes payable to banks	62,000	28,000	—
Dividends paid	(33,408	) (32,690	) (32,111
Other	(1,490	) (957	) (968
Net cash provided (used)	30,344	(76,631	) (51,449
Net increase (decrease) in cash and cash equivalents	(3,928	) (71,624	) 37,762
Cash and cash equivalents, beginning of year	4,364	75,988	38,226
Cash and cash equivalents, end of year	\$ 436	\$ 4,364	\$ 75,988

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

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Table of ContentsGOLDEN STATE WATER COMPANY
BALANCE SHEETS

(in thousands)	December 31,	
Assets	2016	2015
Utility Plant, at cost		
Water	\$1,514,419	\$1,428,024
Electric	94,009	88,481
Total	1,608,428	1,516,505
Less — accumulated depreciation	(524,927)	(522,749)
	1,083,501	993,756
Construction work in progress	61,810	62,360
Net utility plant	1,145,311	1,056,116
Other Property and Investments	18,719	16,581
	18,719	16,581
Current Assets		
Cash and cash equivalents	209	2,501
Accounts receivable-customers, less allowance for doubtful accounts	19,993	18,940
Unbilled revenue	17,700	18,181
Other accounts receivable, less allowance for doubtful accounts	1,959	1,455
Income taxes receivable from Parent	21,856	11,000
Materials and supplies	3,724	4,860
Regulatory assets — current	43,296	30,134
Prepayments and other current assets	3,520	2,847
Total current assets	112,257	89,918
Regulatory and Other Assets		
Regulatory assets	102,985	102,562
Other	4,906	6,702
Total regulatory and other assets	107,891	109,264
Total Assets	\$1,384,178	\$1,271,879

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

Table of ContentsGOLDEN STATE WATER COMPANY
BALANCE SHEETS

(in thousands)	December 31,	
	2016	2015
Capitalization and Liabilities		
Capitalization		
Common shareholder's equity	\$446,770	\$423,730
Long-term debt	320,981	320,900
Total capitalization	767,751	744,630
Current Liabilities		
Inter-company payable to Parent	61,726	12,000
Long-term debt — current	330	312
Accounts payable	34,648	39,610
Accrued other taxes	8,870	7,830
Accrued employee expenses	10,983	10,630
Accrued interest	3,588	3,599
Unrealized loss on purchased power contracts	4,901	7,053
Other	10,925	9,921
Total current liabilities	135,971	90,955
Other Credits		
Advances for construction	69,722	68,041
Contributions in aid of construction — net	120,518	117,810
Deferred income taxes	227,798	195,658
Unamortized investment tax credits	1,529	1,612
Accrued pension and other post-retirement benefits	49,856	42,666
Other	11,033	10,507
Total other credits	480,456	436,294
Commitments and Contingencies (Notes 13 and 14)		
Total Capitalization and Liabilities	\$1,384,178	\$1,271,879

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

Table of ContentsGOLDEN STATE WATER COMPANY
STATEMENTS OF CAPITALIZATION

	December 31,	
(in thousands, except share data)	2016	2015
Common Shareholder's Equity:		
Common Shares, no par value:		
Authorized: 1,000 shares	\$240,482	\$238,795
Outstanding: 146 shares in 2016 and 2015		
Reinvested earnings in the business	206,288	184,935
	446,770	423,730
Long-Term Debt		
Notes/Debentures:		
6.81% notes due 2028	15,000	15,000
6.59% notes due 2029	40,000	40,000
7.875% notes due 2030	20,000	20,000
7.23% notes due 2031	50,000	50,000
6.00% notes due 2041	62,000	62,000
Private Placement Notes:		
3.45% notes due 2029	15,000	15,000
9.56% notes due 2031	28,000	28,000
5.87% notes due 2028	40,000	40,000
6.70% notes due 2019	40,000	40,000
Tax-Exempt Obligations:		
5.50% notes due 2026	7,730	7,730
State Water Project due 2035	3,902	4,000
Other Debt Instruments:		
Variable rate obligation due 2018	54	89
American Recovery and Reinvestment Act Obligation due 2033	3,896	4,034
	325,582	325,853
Less: Current maturities	(330)	(312)
Debt issuance costs	(4,271)	(4,641)
	320,981	320,900
Total Capitalization	\$767,751	\$744,630

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

Table of ContentsGOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME

(in thousands)	For the years ended December 31,		
	2016	2015	2014
Operating Revenues			
Water	\$302,931	\$328,511	\$326,672
Electric	35,771	36,039	34,387
Total operating revenues	338,702	364,550	361,059
Operating Expenses			
Water purchased	64,442	62,726	57,790
Power purchased for pumping	8,663	8,988	10,700
Groundwater production assessment	14,993	13,648	16,450
Power purchased for resale	10,387	10,395	9,649
Supply cost balancing accounts	(12,206)	7,785	6,346
Other operation	24,771	24,892	25,548
Administrative and general	64,066	64,877	65,814
Depreciation and amortization	37,804	40,893	39,854
Maintenance	14,519	14,693	13,945
Property and other taxes	15,444	15,244	15,221
Total operating expenses	242,883	264,141	261,317
Operating Income	95,819	100,409	99,742
Other Income and Expenses			
Interest expense	(21,782)	(20,998)	(21,524)
Interest income	749	440	894
Other, net	792	212	751
Total other income and expenses	(20,241)	(20,346)	(19,879)
Income from operations before income tax expense	75,578	80,063	79,863
Income tax expense	28,609	32,472	32,006
Net Income	\$46,969	\$47,591	\$47,857

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

Table of ContentsGOLDEN STATE WATER COMPANY
STATEMENTS OF CHANGES IN
COMMON SHAREHOLDER'S EQUITY

	Common Shares Number of Share	Reinvested Earnings in the Business	Total
(in thousands, except number of shares)			
Balances at December 31, 2013	146	\$ 203,892	\$437,613
Add:			
Net income		47,857	47,857
Tax benefit from employee stock-based awards	514		514
Compensation on stock-based awards	1,206		1,206
Dividend equivalent rights on stock-based awards not paid in cash	166		166
Deduct:			
Dividends on Common Shares		52,000	52,000
Dividend equivalent rights on stock-based awards not paid in cash		166	166
Balances at December 31, 2014	146	235,607	435,190
Add:			
Net income		47,591	47,591
Tax benefit from employee stock-based awards			