

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of November 5, 2001, the number of Common Shares outstanding, No Par Value with Stated Value of \$2.50, of American States Water Company was 10,079,629 all of which are listed on the New York Stock Exchange.

As of November 5, 2001, all of the 110 outstanding Common Shares of Southern California Water Company are owned by American States Water Company.

AMERICAN STATES WATER COMPANY
AND
SOUTHERN CALIFORNIA WATER COMPANY
FORM 10-Q

INDEX

		PAGE NO. -----
PART I	FINANCIAL INFORMATION	
Item 1:	Financial Statements.....	1
	Consolidated Balance Sheets of American States Water Company as of September 30, 2001 and December 31, 2000.....	2-3
	Consolidated Statements of Income of American States Water Company for the Three Months Ended September 30, 2001 and September 30, 2000.....	4
	Consolidated Statements of Income of American States Water Company for the Nine Months Ended September 30, 2001 and September 30, 2000.....	5
	Consolidated Statements of Income of American States Water Company for the Twelve Months Ended September 30, 2001 and September 30, 2000.....	6
	Consolidated Statements of Cash Flow of American States Water Company for the Nine Months Ended September 30, 2001 and September 30, 2000.....	7
	Consolidated Balance Sheets of Southern California Water Company as of September 30, 2001 and December 31, 2000.....	8-9
	Consolidated Statements of Income of Southern California Water Company for the Three Months Ended September 30, 2001 and September 30, 2000.....	10
	Consolidated Statements of Income of Southern California Water Company for the Nine Months Ended September 30, 2001 and September 30, 2000.....	11
	Consolidated Statements of Income of Southern California Water Company for the Twelve Months Ended September 30, 2001 and September 30, 2000.....	12
	Consolidated Statements of Cash Flow of Southern California Water Company for the Nine Months Ended September 30, 2001 and September 30, 2000.....	13
	Notes to Financial Statements.....	14-17
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operation.....	18-36
Item 3:	Quantitative and Qualitative Disclosures About Market Risks.....	36
PART II	OTHER INFORMATION	
Item 1:	Legal Proceedings.....	36-40
Item 2:	Changes in Securities.....	40
Item 3:	Defaults Upon Senior Securities.....	41
Item 4:	Submission of Matters to a Vote of Security Holders.....	41
Item 5:	Other Information.....	41
Item 6:	Exhibits and Reports on Form 8-K.....	41

PART I

ITEM 1. FINANCIAL STATEMENTS

General

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

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

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

Filing Format

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
ASSETS
(UNAUDITED)

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	-----	-----
	(in thousands)	
UTILITY PLANT, at cost		
Water	\$ 625,654	\$ 608,032
Electric	37,952	37,630
	-----	-----
	663,606	645,662
Less - Accumulated depreciation	(186,970)	(173,367)
	-----	-----
	476,636	472,295
Construction work in progress	53,043	36,801
	-----	-----
	529,679	509,096
	-----	-----
OTHER PROPERTY AND INVESTMENTS	24,710	25,222
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	7,931	5,808
Accounts receivable -		
Customers, less reserves of \$862 in 2001 and \$510 in 2000	13,827	10,481
Other	4,695	5,233
Unbilled revenue	15,127	11,363
Materials and supplies, at average cost	1,295	1,116
Supply cost balancing accounts	22,625	11,145
Prepayments and other	3,193	4,085
Accumulated deferred income taxes - net	--	3,249
	-----	-----
	68,693	52,480
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets	16,272	17,705
Other deferred charges	14,730	12,143
	-----	-----
	31,002	29,848
	-----	-----
 TOTAL ASSETS	 \$ 654,084	 \$ 616,646
	=====	=====

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(UNAUDITED)

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	-----	-----
	(in thousands)	
CAPITALIZATION		
Common shareholders' equity	\$200,465	\$192,723
Preferred shares	1,600	1,600
Preferred shares subject to mandatory redemption requirements	320	320
Long-term debt	195,994	176,452
	-----	-----
	398,379	371,095
	-----	-----
CURRENT LIABILITIES		
Notes payable to banks	38,000	45,000
Long-term debt and preferred shares due within one year	735	735
Accounts payable	18,272	11,857
Taxes payable	9,010	5,585
Accrued interest	4,057	1,783
Other accrued liabilities	16,822	15,257
	-----	-----
	86,896	80,217
	-----	-----
OTHER CREDITS		
Advances for construction	68,320	69,230
Contributions in aid of construction	41,384	39,670
Accumulated deferred income taxes - net	52,294	51,131
Unamortized investment tax credits	3,080	3,156
Regulatory tax-related liability	1,784	1,817
Other	1,947	330
	-----	-----
	168,809	165,334
	-----	-----
TOTAL CAPITALIZATION AND LIABILITIES	\$654,084	\$616,646
	=====	=====

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	(in thousands, except per share amounts)	
OPERATING REVENUES		
Water	\$ 55,412	\$ 51,510
Electric	3,807	3,493
Other	191	245
	59,410	55,248
OPERATING EXPENSES		
Water purchased	12,791	13,594
Power purchased for pumping	3,367	2,509
Power purchased for resale	4,758	3,213
Groundwater production assessment	1,697	1,524
Supply cost balancing accounts	(2,920)	(1,865)
Other operating expenses	4,398	4,322
Administrative and general expenses	6,956	6,210
Depreciation	4,486	3,666
Maintenance	1,767	2,226
Taxes on income	6,739	6,291
Other taxes	1,999	1,767
	46,038	43,457
Operating income	13,372	11,791
OTHER INCOME/(LOSS)	(53)	108
Income before interest charges	13,319	11,899
INTEREST CHARGES	3,865	3,681
NET INCOME	9,454	8,218
DIVIDENDS ON PREFERRED SHARES	(21)	(22)
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS	\$ 9,433	\$ 8,196
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	10,080	9,516
Basic Earnings Per Common Share	\$ 0.94	\$ 0.86
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES	10,171	9,562
Fully Diluted Earnings Per Share	\$ 0.93	\$ 0.86
Dividends Declared Per Common Share	\$ 0.325	\$ 0.32

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	(in thousands, except per share amounts)	
OPERATING REVENUES		
Water	\$ 138,052	\$ 128,185
Electric	10,940	10,660
Other	579	580
	-----	-----
	149,571	139,425
	-----	-----
OPERATING EXPENSES		
Water purchased	29,941	32,472
Power purchased for pumping	6,793	5,559
Power purchased for resale	15,106	6,792
Groundwater production assessment	5,124	5,797
Supply cost balancing accounts	(11,480)	(3,299)
Other operating expenses	13,034	12,553
Administrative and general expenses	22,474	18,122
Depreciation	13,463	11,275
Maintenance	6,066	7,371
Taxes on income	13,577	12,004
Other taxes	5,865	5,260
	-----	-----
	119,963	113,906
	-----	-----
Operating income	29,608	25,519
OTHER INCOME/(LOSS)	(223)	67
	-----	-----
Income before interest charges	29,385	25,586
INTEREST CHARGES	11,761	10,553
	-----	-----
NET INCOME	17,624	15,033
DIVIDENDS ON PREFERRED SHARES	(63)	(64)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS	\$ 17,561	\$ 14,969
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	10,080	9,145
Basic Earnings Per Common Share	\$ 1.74	\$ 1.64
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES	10,171	9,171
Fully Diluted Earnings Per Share	\$ 1.73	\$ 1.63
Dividends Declared Per Common Share	\$ 0.975	\$ 0.96

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE TWELVE MONTHS
ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)

	TWELVE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	(in thousands, except per share amounts)	
OPERATING REVENUES		
Water	\$ 178,662	\$ 168,205
Electric	14,645	14,066
Other	799	730
	194,106	183,001
OPERATING EXPENSES		
Water purchased	39,061	41,669
Power purchased for pumping	8,744	7,812
Power purchased for resale	18,977	8,761
Groundwater production assessment	6,816	7,447
Supply cost balancing accounts	(14,553)	(3,318)
Other operating expenses	17,227	16,977
Administrative and general expenses	30,489	26,179
Depreciation	17,528	14,655
Maintenance	8,975	11,296
Taxes on income	16,700	13,954
Other taxes	7,747	6,906
	157,711	152,338
Operating income	36,395	30,663
OTHER INCOME/(LOSS)	(389)	189
Income before interest charges	36,006	30,852
INTEREST CHARGES	15,330	13,790
NET INCOME	20,676	17,062
DIVIDENDS ON PREFERRED SHARES	(84)	(86)
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS	\$ 20,592	\$ 16,976
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	10,080	9,098
Basic Earnings Per Common Share	\$ 2.04	\$ 1.87
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES	10,160	9,117
Fully Diluted Earnings Per Share	\$ 2.03	\$ 1.86
Dividends Declared Per Common Share	\$ 1.30	\$ 1.28

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

AMERICAN STATES WATER COMPANY
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	(in thousands)	
CASH FLOWS FROM -		
Operating Activities:		
Net income	\$ 17,624	\$ 15,033
Adjustments for non-cash items:		
Depreciation and amortization	13,463	11,856
Deferred income taxes and investment tax credits	5,736	3,008
Other - net	(1,116)	(1,220)
Changes in assets and liabilities:		
Accounts receivable	(3,346)	(2,230)
Prepayments	892	368
Supply cost balancing accounts	(11,480)	(3,298)
Accounts payable	6,415	(577)
Taxes payable	3,425	2,666
Unbilled revenue	(3,576)	(2,815)
Other	5,753	1,692
Net Cash Provided	33,790	24,483
Investing Activities:		
Construction expenditures	(33,799)	(33,275)
Net Cash Used	(33,799)	(33,275)
Financing Activities:		
Issuance of securities	20,000	28,057
Receipt of advances and contributions	3,934	1,866
Repayments of long-term debt, net of redemption of preferred shares	(449)	(280)
Refunds on advances for construction	(4,463)	(2,817)
Changes in notes payable to banks	(7,000)	(7,000)
Common and preferred dividends paid	(9,890)	(9,018)
Net Cash Provided	2,132	10,808
Net Increase (Decrease) in Cash and Cash Equivalents	2,123	2,016
Cash and Cash Equivalents, Beginning of period	5,808	2,189
Cash and Cash Equivalents, End of period	\$ 7,931	\$ 4,205

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED BALANCE SHEETS
ASSETS
(UNAUDITED)

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	-----	-----
	(in thousands)	
UTILITY PLANT, at cost		
Water	\$ 588,457	\$ 570,836
Electric	37,952	37,630
	-----	-----
	626,409	608,466
Less - Accumulated depreciation	(177,915)	(165,002)
	-----	-----
	448,494	443,464
Construction work in progress	52,376	36,605
	-----	-----
	500,870	480,069
	-----	-----
OTHER PROPERTY AND INVESTMENTS	9,513	9,711
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	3,417	1,545
Accounts receivable -		
Customers, less reserves of \$846 in 2001, and \$498 in 2000	13,142	10,071
Other	4,580	5,097
Intercompany receivable	488	376
Unbilled revenue	14,847	11,363
Materials and supplies, at average cost	1,209	1,039
Supply cost balancing accounts	22,625	11,145
Prepayments and other	3,089	3,756
Accumulated deferred income taxes - net	--	3,256
	-----	-----
	63,397	47,648
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets	16,272	17,705
Other deferred charges	13,905	11,396
	-----	-----
	30,177	29,101
	-----	-----
TOTAL ASSETS	\$ 603,957	\$ 566,529
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(UNAUDITED)

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	-----	-----
	(in thousands)	
CAPITALIZATION		
Common shareholders' equity	\$196,594	\$164,808
Long-term debt	186,851	167,062
	-----	-----
	383,445	331,870
	-----	-----
CURRENT LIABILITIES		
Notes payable to banks	18,000	45,000
Long-term debt and preferred shares due within one year	275	275
Accounts payable	17,884	11,203
Intercompany payable	--	4,746
Taxes payable	9,129	5,675
Accrued interest	3,862	1,722
Other accrued liabilities	16,600	13,512
	-----	-----
	65,750	82,133
	-----	-----
OTHER CREDITS		
Advances for construction	57,705	58,195
Contributions in aid of construction	41,160	39,642
Accumulated deferred income taxes - net	50,761	49,569
Unamortized investment tax credits	2,905	2,973
Regulatory tax-related liability	1,784	1,817
Other	447	330
	-----	-----
	154,762	152,526
	-----	-----
TOTAL CAPITALIZATION AND LIABILITIES	\$603,957	\$566,529
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	(\$ in thousands, except per share amounts)	
OPERATING REVENUES		
Water	\$ 53,674	\$ 51,509
Electric	3,807	3,493
	57,481	55,002
OPERATING EXPENSES		
Water purchased	12,620	13,594
Power purchased for pumping	3,222	2,508
Power purchased for resale	4,758	3,213
Groundwater production assessment	1,697	1,524
Supply cost balancing accounts	(2,920)	(1,865)
Other operating expenses	4,105	4,235
Administrative and general expenses	6,679	6,224
Depreciation	4,176	3,666
Maintenance	1,730	2,216
Taxes on income	6,664	6,225
Other taxes	1,886	1,765
	44,617	43,305
Operating income	12,864	11,697
OTHER INCOME/(LOSS)	(81)	(51)
Income before interest charges	12,783	11,646
INTEREST CHARGES	3,513	3,681
NET INCOME	9,270	7,965
DIVIDENDS ON PREFERRED SHARES	--	--
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS	\$ 9,270	\$ 7,965
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	110	100
Basic Earnings Per Common Share	\$ 84,273	\$ 79,650
Dividends Declared Per Common Share	\$ 33,000	\$ 33,000

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	(\$ in thousands, except per share amounts)	
OPERATING REVENUES		
Water	\$ 133,313	\$ 128,185
Electric	10,940	10,660
	-----	-----
	144,253	138,845
	-----	-----
OPERATING EXPENSES		
Water purchased	29,616	32,472
Power purchased for pumping	6,509	5,559
Power purchased for resale	15,106	6,792
Groundwater production assessment	5,124	5,797
Supply cost balancing accounts	(11,480)	(3,299)
Other operating expenses	12,226	12,325
Administrative and general expenses	21,642	17,815
Depreciation	12,532	11,275
Maintenance	5,910	7,348
Taxes on income	13,243	11,997
Other taxes	5,575	5,254
	-----	-----
	116,003	113,335
	-----	-----
Operating income	28,250	25,510
OTHER INCOME/(LOSS)	(303)	(92)
	-----	-----
Income before interest charges	27,947	25,418
INTEREST CHARGES	10,936	10,553
	-----	-----
NET INCOME	17,011	14,865
DIVIDENDS ON PREFERRED SHARES	--	--
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS	\$ 17,011	\$ 14,865
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	106	100
Basic Earnings Per Common Share	\$ 160,481	\$ 148,650
Dividends Declared Per Common Share	\$ 96,509	\$ 96,000

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE TWELVE MONTHS
ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)

	TWELVE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	----- (\$ in thousands, except per share amounts) -----	
OPERATING REVENUES		
Water	\$ 172,658	\$ 168,205
Electric	14,645	14,066
	-----	-----
	187,303	182,271
	-----	-----
OPERATING EXPENSES		
Water purchased	38,594	41,669
Power purchased for pumping	8,393	7,812
Power purchased for resale	18,977	8,761
Groundwater production assessment	6,816	7,447
Supply cost balancing accounts	(14,553)	(3,318)
Other operating expenses	16,205	16,679
Administrative and general expenses	29,375	25,657
Depreciation	16,343	14,655
Maintenance	8,753	11,270
Taxes on income	16,127	13,998
Other taxes	7,358	6,901
	-----	-----
	152,388	151,531
	-----	-----
Operating income	34,915	30,740
OTHER INCOME	(351)	31
	-----	-----
Income before interest charges	34,564	30,771
INTEREST CHARGES	14,733	13,790
	-----	-----
NET INCOME	19,831	16,981
DIVIDENDS ON PREFERRED SHARES	--	--
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS	\$ 19,831	\$ 16,981
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	104	100
Basic Earnings Per Common Share	\$ 190,683	\$ 169,810
Dividends Declared Per Common Share	\$ 131,359	\$ 126,000

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

SOUTHERN CALIFORNIA WATER COMPANY
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	(in thousands)	
CASH FLOWS FROM -		
Operating Activities:		
Net income	\$ 17,011	\$ 14,865
Adjustments for non-cash items:		
Depreciation and amortization	12,532	11,856
Deferred income taxes an investment tax credits	5,780	3,015
Other - net	(1,204)	36
Changes in assets and liabilities:		
Accounts receivable	(3,071)	(2,233)
Prepayments	667	368
Supply cost balancing accounts	(11,480)	(3,298)
Accounts payable	6,681	(675)
Intercompany Payable	(4,858)	27,257
Taxes payable	3,454	2,558
Unbilled revenue	(3,484)	(2,815)
Other	5,575	1,588
Net Cash Provided	27,603	52,522
Investing Activities:		
Construction expenditures	(33,333)	(33,274)
Net Cash Used	(33,333)	(33,274)
Financing Activities:		
Issuance of securities	45,000	--
Receipt of advances and contributions	3,934	1,866
Repayments of long-term debt, net of redemption of preferred shares	(206)	(280)
Refunds on advances for construction	(3,896)	(2,817)
Changes in notes payable to banks	(27,000)	(7,000)
Common and preferred dividends paid	(10,230)	(9,600)
Net Cash Provided (Used)	7,602	(17,831)
Net Increase (Decrease) in Cash and Cash Equivalents	1,872	1,417
Cash and Cash Equivalents, Beginning of period	1,545	2,020
Cash and Cash Equivalents, End of period	\$ 3,417	\$ 3,437

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

AMERICAN STATES WATER COMPANY
AND
SOUTHERN CALIFORNIA WATER COMPANY

NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

American States Water Company (AWR), incorporated in 1998, is the parent company of Southern California Water Company (SCW), American States Utility Services, Inc. (ASUS) and Chaparral City Water Company (CCWC). More than 90% of AWR's assets consist of the common stock of Southern California Water Company. SCW is a public utility company engaged principally in the purchase, production, distribution and sale of water, and the distribution and sale of electric energy in several mountain communities. Unless otherwise stated in this report, the term Registrant applies to both AWR and SCW, collectively.

1. For a summary of significant accounting policies and other information relating to these interim financial statements, reference is made to pages 37 through 46 of the Form 10-K, incorporated in the 2000 Annual Report to Shareholders of AWR, under the caption "Notes to Financial Statements."
2. Basic earnings per common share are calculated pursuant to SFAS No. 128 - Earnings per Share - and are based on the weighted average number of common shares outstanding during each period and net income after deducting preferred dividend requirements. Under the American States Water Company 2000 Stock Incentive Plan, stock options representing 45,657 common shares were granted to certain eligible employees on May 1, 2000, and stock options representing an additional 45,657 common shares were granted on January 2, 2001. As a result, fully diluted earnings per share amounts are shown.
3. On April 22, 1999, the California Public Utilities Commission (CPUC) issued an order denying SCW's application seeking approval of its recovery through rates of costs associated with its participation in the Coastal Aqueduct Extension of the State Water Project (SWP). SCW's participation in the SWP commits it to a 40-year entitlement with a value of approximately \$9.5 million. SCW's investment in SWP is currently included in Other Property and Investments. The remaining balance of the related liability of approximately \$7 million is recorded as other long-term debt. SCW intends to recover its investment in SWP through contributions from developers on a per-lot or other basis, or sale of its 500 acre-foot entitlement in SWP. In October 2001, SCW entered into an agreement with a developer, which obligates the developer to make payments to SCW in exchange for SCW's reservation and dedication of up to 350 acre-feet per year of the SWP entitlement. SCW believes that its full investment and on-going costs associated with its ownership will be fully recovered.
4. New water rates with an annual increase of approximately \$2.5 million for seven ratemaking districts in SCW's Region I were implemented in January 2001. SCW's application to combine the seven ratemaking customer service areas (CSAs) into one regional rate was, however, denied by the CPUC. Step increases of approximately \$1.7 million for CSAs in SCW's Region III were also effective in January 2001. An attrition increase of approximately \$2.8 million for Region II was in effect from February 2001. There are no active regulatory proceedings affecting CCWC or its operations.
5. As permitted by the CPUC, SCW maintains water and electric supply cost balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Recoveries or refunds of such over/under collections are recorded in income when received from

customers and charged to balancing accounts when such costs are incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments.

As previously disclosed in Registrant's Form 10-K for the year ended December 31, 2000, SCW, like other California utilities, has experienced rapid increases in the price of electric energy. As of September 30, 2001, SCW had an aggregate under-collection of \$22.6 million in its water and electric balancing accounts. Of this total amount, approximately \$19.9 million is related to purchased power costs at SCW's Bear Valley Electric customer service area (BVE). This is a result of the differences between wholesale purchased power costs, which have averaged approximately \$0.15 per kilowatt-hour during the first nine months of this year, and the \$0.024 per kilowatt-hour (KWh) currently authorized in rates for collection of purchased power costs from customers. On May 24, 2001, the CPUC approved SCW's Advice Letter filed in May 2000 for recovery over a five-year period of approximately \$2.4 million in under-collected power costs, which resulted in an overall rate increase of 12.5% for customers of BVE, and imposed a condition of conducting a subsequent audit on the electric balancing account. SCW filed a second Advice Letter on April 9, 2001 for recovery over a five-year period of an additional under-collection of \$8.7 million. On August 23, 2001, the CPUC approved the Advice Letter, which resulted in an additional rate increase of 14.8% to BVE's customers. On August 17, 2001, SCW filed an application with the CPUC to seek recovery of \$0.095 per KWh for electric energy purchased pursuant to a five-year, fixed cost contract with Mirant Americas Energy Marketing, LP. (Mirant). The application, if approved, will result in an additional rate increase of approximately 50%. Registrant believes that the recovery of this amount is probable but is unable to predict when, or if, the CPUC will authorize recovery of all or any of these expenses. SCW will continue to file additional Advice Letters to recover the differences between actual wholesale power costs and the amounts currently recovered through rates. Registrant also believes that timely actions by the CPUC to authorize SCW to recover past and future power costs are necessary to avoid any material adverse effect on SCW's financial condition.

In March 2001, the CPUC approved SCW's first filing for recovery of increased costs of electric power incurred to pump water for its water customers. In April 2001, SCW filed additional Advice Letters by ratemaking areas to increase water rates by approximately \$2.3 million company-wide to cover additional electric base rate increases, authorized recently by the CPUC for the Southern California Edison Company and the Pacific Gas and Electric Company. On October 25, 2001, the CPUC approved an increase of \$297,000 in rates for SCW's Claremont CSA to collect the electric base rate increases. The remaining Advice Letters are scheduled to be on Commission's agenda on November 8, 2001. See the sections entitled "Liquidity and Capital Resources," "Electric Energy Situation in California," and "Regulatory Matters" for information on actions being taken by SCW to recover these costs.

CCWC, subject to regulation by the Arizona Corporation Commission (ACC), does not maintain balancing accounts and increases in costs are normally recovered through general rate case applications.

6. On October 2000, AWR completed the acquisition of the common stock of CCWC for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt. As of September 30, 2001, Registrant has \$12,815,000 in goodwill included in Other Property and Investments. The amount represents the difference between the purchase price of the common equity of CCWC and CCWC's book equity at the time of closing and is being amortized over a period of 40 years. Amortization will cease on January 1, 2002 pursuant to SFAS No. 142.
7. In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 eliminates

the pooling-of-interests method of accounting, effective September 30, 2001. After that, all business combinations will be recorded under the purchased method of accounting (record goodwill for excess of costs over the net assets acquired). SFAS No. 142 requires that companies cease amortizing goodwill, effective January 1, 2002. Goodwill initially recognized after September 30, 2001, will not be amortized. Goodwill on the balance sheet at September 30, 2001 will be amortized until January 1, 2002. Under SFAS No. 142, goodwill will be tested for impairment using a fair-value approach when events or circumstances occur indicating that impairment might exist. A benchmark assessment for goodwill is also required within six months of the date of adoption of SFAS No. 142. Registrant is assessing the impact on future financial reporting related to both past and future transactions, but believes that adoption of this statement will not have a significant impact on its financial position or results of operation.

8. AWR has three principal business units: water and electric distribution units, through its SCW subsidiary, a water service utility operation conducted through its Chaparral City Water Company (CCWC) unit, and a non-regulated activity unit through the American States Utilities Services, Inc. (ASUS) subsidiary. All activities of SCW currently are geographically located within California. All activities of CCWC are located in the state of Arizona. Both SCW and CCWC are regulated utilities. On a stand-alone basis, AWR has no material assets other than its investments in its subsidiaries. The tables below set forth information relating to SCW's water and electric operating segments, CCWC, and non-regulated businesses, consisting of ASUS and AWR corporate expenses. Included in the amounts set forth, certain assets, revenues and expenses have been allocated. The identifiable assets are net of respective accumulated provisions for depreciation.

(dollars in thousands)

For The Three Months Ended September 30, 2001

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$53,674	\$ 3,807	\$1,738	\$191	\$59,410
Operating income before income taxes	19,064	464	611	(28)	20,111
Identifiable assets	473,698	27,172	28,809	--	529,679
Depreciation expense	3,814	362	310	--	4,486
Capital additions	\$10,850	\$820	\$254	--	\$11,924

(dollars in thousands)

For The Three Months Ended September 30, 2000

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$51,509	\$3,493	N/A	\$246	\$55,248
Operating income before income taxes	16,705	1,217	N/A	160	18,082
Identifiable assets	444,924	26,089	N/A	--	471,013
Depreciation expense	3,316	350	N/A	--	3,666
Capital additions	\$11,214	\$624	N/A	--	\$11,838

(dollars in thousands)

For The Nine Months Ended September 30, 2001

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$133,313	\$10,940	\$4,739	\$579	\$149,571
Operating income before income					

taxes	40,715	778	1,624	68	43,185
Identifiable assets	473,698	27,172	28,809	--	529,679
Depreciation expense	11,448	1,084	931	--	13,463
Capital additions	\$33,040	\$1,882	\$471	--	\$35,393

(dollars in thousands)

For The Nine Months Ended September 30, 2000

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$128,185	\$10,660	N/A	\$580	\$139,425
Operating income before income taxes	34,161	3,346	N/A	16	37,523
Identifiable assets	444,924	26,089	N/A	--	471,013
Depreciation expense	10,224	1,051	N/A	--	11,275
Capital additions	\$31,197	\$1,536	N/A	--	\$32,733

(dollars in thousands)

For The Twelve Months Ended September 30, 2001

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$172,658	\$14,645	\$6,004	\$799	\$194,106
Operating income before income taxes	49,090	1,952	1,923	130	53,095
Identifiable assets	473,698	27,172	28,809	--	529,679
Depreciation expense	14,909	1,434	1,185	--	17,528
Capital additions	\$45,325	\$2,650	\$667	--	\$48,642

(dollars in thousands)

For The Twelve Months Ended September 30, 2000

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$168,205	\$14,066	N/A	\$730	\$183,001
Operating income before income taxes	40,881	3,857	N/A	(121)	44,617
Identifiable assets	444,924	26,089	N/A	--	471,013
Depreciation expense	13,268	1,387	N/A	--	14,655
Capital additions	\$45,311	\$2,173	N/A	--	\$47,484

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

FORWARD-LOOKING INFORMATION

Certain matters discussed in this report (including the documents incorporated herein by reference) are forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as Registrant "believes," "anticipates," "expects" or words of similar import. Similarly, statements that describe Registrant's future plans, objectives, estimates or goals are also forward-looking statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rates, water quality and other regulatory matters, adequacy of water supplies, the California energy crisis, liquidity and capital resources, opportunities related to operations and maintenance of water systems owned by governmental entities and other utilities and providing related services, and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as utility restructuring, including ongoing local, state and federal activities; future economic conditions, including changes in customer demand and changes in water and energy supply cost; future climatic conditions; litigation developments; and legislative, regulatory and other circumstances affecting anticipated revenues and costs. See the section entitled "Risk Factors" for more information.

GENERAL

American States Water Company (AWR), incorporated in 1998, is engaged in the business of holding, for investment, the stock primarily of utility companies. AWR's primary investment is the stock of Southern California Water Company (SCW). SCW is a California public utility company engaged principally in the purchase, production, distribution and sale of water (SIC No. 4941). SCW also distributes electricity in one customer service area (SIC No. 4911). SCW is regulated by the California Public Utilities Commission (CPUC) and was incorporated on December 31, 1929 under the laws of the State of California.

SCW is organized into three regions and one electric customer service area (CSA) operating within 75 communities in 10 counties in the State of California and provides water service in 21 CSAs. Region I incorporates 7 CSAs in northern and central California; Region II has 4 CSAs located in Los Angeles; Region III incorporates 10 water CSA's. SCW also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County. See the section entitled "Electric Energy Situation in California" for more information.

SCW served 246,396 water customers and 21,665 electric customers at September 30, 2001, or a total of 268,061 customers, compared with 266,318 total customers at September 30, 2000.

SCW's utility operations exhibit seasonal trends. Although SCW's water utility operations have a diversified customer base, revenues derived from commercial and residential water customers accounted for approximately 87.1%, 89.0% and 91.1% of total water revenues for the three, nine and twelve months ended September 30, 2001, respectively, as compared to 87.1%, 89.3% and 90.7% for the three, nine and twelve months ended September 30, 2000, respectively.

AWR also owns two other subsidiaries. American States Utility Services, Inc. (ASUS) contracts to lease, operate and maintain water and wastewater systems owned by others and to provide related services, such as billing and meter reading, to approximately 90,000 accounts. Chaparral City Water Company (CCWC) is an Arizona public utility company serving 11,438 customers as of September 30, 2001 in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. The Arizona Corporation Commission (ACC) regulates CCWC. AWR completed the acquisition of the common stock of CCWC on

October 10, 2000 for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt. Neither AWR nor ASUS is regulated by either the CPUC or the ACC.

ACQUISITION OF PEERLESS WATER CO.

In December 1999, Registrant agreed to acquire Peerless Water Co., a privately owned water company in Bellflower, California, subject to satisfaction of certain conditions, including CPUC approval. The number of Common Shares to be issued will be determined at the closing, but will in no event be greater than 131,036 shares nor less than 107,538 shares. A proposed decision issued on October 5, 2001 by the Administrative Law Judge assigned to the case denied the transaction on the basis that it was not in the public interest. The final CPUC decision is anticipated in the fourth quarter of 2001. SCW intends to vigorously oppose the proposed decision.

RESULTS OF OPERATION

Basic earnings per common share for the three months ended September 30, 2001 increased by 9.3% to \$0.94 per share as compared to \$0.86 per share for the comparable period last year. Basic earnings for the nine months ended September 30, 2001 increased by 6.1% to \$1.74 per share from \$1.64 per share for the same period of last year. As compared to the twelve months ended September 30, 2000, basic earnings increased by 10.7% to \$2.07 per share from \$1.87 per share. The increases in the recorded results primarily reflect the impact of various rate increases authorized by the CPUC for SCW, additional revenues generated by CCWC since the acquisition and various reasons as discussed below and, to some extent Registrant's Cash Preservation Plan (CPP). Fully diluted earnings per share for the three, nine and twelve months ended September 30, 2001 are \$0.93, \$1.73 and \$2.06 per share, respectively, as compared to \$0.86, \$1.63 and \$1.86 per share for the comparable periods of 2000. See the section entitled "Liquidity and Capital Resources" for more information.

As compared to the same periods ended September 30, 2000, water operating revenues increased by 7.6%, 7.7% and 6.2% for the three, nine and twelve months ended September 30, 2001, respectively, due to the increases in rates authorized by the CPUC, and additional revenues generated by CCWC. New rates in the customer service areas that comprise SCW's Region I were effective January 2, 2001. Attrition increases for SCW's Metropolitan customer service area and step increases for SCW's Region III were also in effect in the first quarter of 2001. The additional revenues generated by rate increases were partially offset by a reduction of 4.5%, 4.5% and 4.7% in water sales, respectively, for the three, nine and twelve months ended September 30, 2001 to customers of SCW due to relatively mild weather this year. See the section entitled "Regulatory Matters" for more information.

Electric revenues increased by 9.0% and 2.6% and 4.1%, respectively, for the three, nine and twelve months ended September 30, 2001 as compared to the same periods ended September 30, 2000. The increases reflected a rate increase of 12.5% effective May 24, 2001 and an additional 14.8% increase effective August 23, 2001 authorized by the CPUC to recover previous under-collected energy costs. The three-month and nine-month increases in electric revenues were also partially offset by a decrease of 5% and 3% in usage, respectively, for the three and nine months ended September 30, 2001. The decreases in sales were due to energy conservation efforts by all classes of customers, and more winter snows experienced in SCW's service area during the first quarter of this year, which decreased the use of snow making machines at ski resorts in the area. See the section entitled "Regulatory Matters" and "Electric Energy Situation in California" for more information.

Purchased water costs decreased by 5.9%, 7.8% and 6.3%, respectively, for the three, nine and twelve months ended September 30, 2001 as compared to the same periods ending in 2000 reflecting a decrease in purchased water volume resulting from both lower sales and less purchased water in Registrant's supply mix.

Cost of power purchased for pumping increased by 34.2%, 22.2% and 11.9% for the three, nine and twelve months ended September 30, 2001, respectively, due to the rate increases implemented by SCW's energy suppliers pursuant to CPUC decisions, and increased pumped water in SCW's supply mix. On March 27, 2001, the CPUC approved SCW's Advice Letters to increase revenues by approximately \$762,000 annually to recover the costs of purchased power for its water ratemaking districts. Another Advice Letter to increase water rates by approximately \$2.3 million annually to recover additional electric power increases was filed in April 2001, and is pending CPUC approval. See the section entitled "Regulatory Matters" and "Electric Energy Situation in California" for more information.

As compared to the three, nine and twelve months ended September 30, 2000, costs of power purchased for resale to customers in SCW's Bear Valley Electric customer service area increased by 48.1%, 122.4% and 116.6%, respectively, due primarily to significant increases in wholesale market prices for energy in the State of California. For the nine and twelve month comparisons, the increases were partially offset by a one-time sale of energy on the spot market that resulted in a \$644,000 gain in April 2001. The sale of excess energy on the spot market resulted from a one-month overlap of energy purchase agreements. Effectively all of the increase in electric power costs has been included in the electric supply cost balancing account that, as described below, partially insulates earnings from the effects of the significantly increased power costs, unless recovery of these costs is disallowed. The CPUC approved an overall rate increases on May 24, 2001 and August 23, 2001, respectively, to recover approximately \$11.1 million in the aggregate in under-collected power costs incurred prior to March 31, 2001 over a five-year period. An application to increase electric rates by approximately \$8.7 million annually were filed with the CPUC on August 17, 2001 to recover the \$95 per megawatt contract with Mirant Americas Energy Marketing, LP. SCW intends to continue to file additional Advice Letters to recover the differences between actual wholesale power costs and the costs recovered through previously approved rates. Due to the nature of the regulatory process, there is a risk of disallowance of full recovery of costs or additional delays in the recovery of costs during any period in which there has been a substantial escalation in costs. See the sections entitled "Liquidity and Capital Resources", "Regulatory Matters" and "Electric Energy Situation in California" for more information.

Groundwater production assessments for the three months ended September 30, 2001 increased by 11.4% as compared to the same period in 2000 reflecting an adjustment made in the third quarter of 2000 to previously over-accrued groundwater production assessments; there was no such adjustment in 2001. For the nine and twelve months ended September 30, 2001, groundwater production assessments decreased by 11.6% and 8.5%, respectively, as compared to the same periods in 2000. The decreases incurred principally in SCW's San Gabriel and San Dimas customer service areas due to lower administrative assessments levied against production for the water year ended June 30, 2001.

A positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. Conversely, a negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. The negative entries for the three, nine and twelve months ended September 30, 2001 primarily reflect untimely-recovery of electric power costs discussed previously. At September 30, 2001, Registrant had a net under-collected position of \$22.6 million in both its water and electric balancing accounts primarily due to the increases in energy costs. See the sections entitled "Liquidity and Capital Resources", "Regulatory Matters" and "Electric Energy Situation in California" for more information.

Other operating expenses increased by 1.8%, 3.8% and 1.5% for the three, nine and twelve months ended September 30, 2001, respectively, as compared to the same periods of last year. The increases were primarily due to additional costs related to the inclusion of CCWC.

Administrative and general expenses increased by 12.0%, 24.0% and 16.5%, respectively, for the three, nine and twelve months ended September 30, 2001 as compared to the same periods ended September 30, 2000 reflecting (i) additional costs and reserves associated with SCW's Bear Valley Electric customer service area in response to the energy situation in California, including possible disallowances of past costs included in the balancing account as well as an adverse settlement with SCW's energy provider, (ii) increased reserves for self-insured worker's compensation liabilities, and (iii) additional costs from CCWC.

Depreciation expense increased by 22.4%, 19.4% and 19.6%, respectively, for the three, nine and twelve months ended September 30, 2001 reflecting, among other things, the effects of recording approximately \$40.1 million in net plant additions at SCW during 2000, depreciation on which began in January 2001, and additional depreciation associated with CCWC's plant. In addition, amortization of goodwill, which represents the difference between the purchase price of the common equity of CCWC and CCWC's book equity at the time of closing, began October 2000. Amortization of this goodwill will cease effective January 1, 2002. However, pursuant to FASB No. 142, Registrant will conduct an annual impairment test. Management believes that adoption of this statement will not have a significant impact on its financial position or results of operation.

As compared to the three, nine and twelve months ended September 30, 2000, maintenance expense decreased by 20.6%, 17.7% and 20.5%, respectively, due primarily to the implementation of Registrant's CPP in April 2001. Registrant anticipates the maintenance expenditures at SCW will increase significantly in the fourth quarter of 2001 as compared to the fourth quarter of 2000. See the sections entitled "Liquidity and Capital Resources", "Electric Energy Situation in California" and "Regulatory Matters" for more information.

Taxes on income increased by 7.1%, 13.1% and 19.7%, respectively, as compared to the three, nine and twelve months ended September 30, 2000, due to an increase in pre-tax operating income of 12.8%, 16.5% and 22.5%, respectively, for the comparable periods ended September 30, 2001, offset partially by a lower effective tax rate.

Other taxes increased by 13.1%, 11.5% and 12.2%, respectively, for the three, nine and twelve months ended September 30, 2001, respectively, as compared to the same periods last year reflecting principally increased property taxes due to higher property valuation assessments, and additional property and payroll taxes at CCWC.

The loss recorded in other income for the three, nine and twelve months ended September 30, 2001 was due principally to the effects of recording amortization and interest expenses, starting January 2000, on SCW's 500 acre-foot entitlement in the State Water Project, and higher expenses associated with increased non-regulated activities. SCW anticipates signing an agreement during the fourth quarter of 2001 that will shift responsibility for payment of costs related to 350 acre-feet of its entitlement to a non-related third party.

Interest expense increased by 5%, 11.4% and 11.2%, respectively, for the three, nine and twelve months ended September 30, 2001 as compared to the three, nine and twelve months ended September 30, 2000 due to (i) short-term borrowing, incurred by AWR to fund the acquisition of CCWC, (ii) the issuance of \$20 million in long-term debt by SCW in January 2001 and (iii) the inclusion of long-term debt at Registrant's CCWC unit.

LIQUIDITY AND CAPITAL RESOURCES

AWR funds its operating expenses and pays dividends on its outstanding Common and Preferred Shares primarily through dividends from its subsidiaries, principally SCW. AWR has a Registration Statement on file with the Securities and Exchange Commission (SEC) for issuance, from time to time,

of up to \$60 million in Common Shares, Preferred Shares and/or debt securities. On August 16, 2000, AWR issued 1,107,000 Common Shares at \$26.125 per share under this Registration Statement. Net proceeds from the offering have been used to fund a portion of the purchase price of CCWC and to invest in additional shares of SCW. As of September 30, 2001, approximately \$31,074,000 remained for issuance under this Registration Statement. AWR completed the acquisition of the common stock of CCWC on October 10, 2000 for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt.

AWR maintains a credit facility with a \$25 million aggregate borrowing capacity. At September 30, 2001, \$20 million was outstanding under this facility.

SCW funds the majority of its operating expenses, payments on its debt, and dividends on its outstanding Common Shares through internal sources. Internal sources of cash flow are provided primarily by retention of a portion of earnings, amortization of deferred charges, and depreciation expense. Internal cash generation is influenced by factors such as weather patterns, environmental regulation, litigation, changes in supply costs, and timing of rate relief. See the sections entitled "Risk Factors" and "Electric Energy Situation in California" for more information.

Because of the seasonal nature of its water and electric operations, SCW utilizes its short-term borrowing capacity to finance current operating expenses, including expenses for purchased power distributed through its Bear Valley Electric customer service area. SCW has experienced increased costs for electric energy, particularly during the fourth quarter of 2000, and continuing throughout 2001. At December 31, 2000, SCW had under-collected its electric power costs by approximately \$8.6 million. During the three quarters of 2001, SCW incurred \$11.3 million more in purchased power costs than it was authorized to recover in current rates. SCW also has an additional \$2.7 million of under-collected supply costs in its water business.

CPUC approval has been obtained to increase electric rates to recover \$11.1 million in under-collected electric power costs over a five-year period. CPUC approval has also been obtained to recover approximately \$1,059,000 annually of costs for purchased power for its water ratemaking districts. Applications are pending before the CPUC for additional rate increases to recover under-collected and increased power costs from SCW's electric and water customers. See the sections entitled "Electric Energy Situation in California" and "Regulatory Matters". SCW's under-collected position for purchased power relative to its Bear Valley Electric Service division could reach approximately \$23 million by the end of 2001 if the CPUC does not timely authorize recovery of costs associated with the new power purchase agreement. Registrant believes that timely regulatory approval of these applications by the CPUC is necessary to avoid any material adverse impact on SCW's liquidity and financial condition.

Registrant implemented a Cash Preservation Plan (CPP) in April 2001 to control costs and temporarily to limit capital and maintenance expenditures principally to those projects that are believed necessary to meet public safety and health requirements or otherwise provide for continued service pending CPUC approval of rate increases that will permit SCW to begin recovery of power costs incurred during California's energy crisis. The CPP impacts both the electric and water businesses of SCW. Management anticipates that the CPP, through deferral of capital expenditures alone, could reduce cash expenditures through April 2002 by as much as \$20 million. See the sections entitled "Electric Energy Situation in California" and "Regulatory Matters" for more information.

The aggregate short-term borrowing capacity available to SCW under its three bank lines of credit was \$60 million as of September 30, 2001, of which a total of \$18 million was then outstanding. SCW routinely employs short-term bank borrowing as an interim-financing source.

SCW also relies on external sources, including equity investments from AWR, long-term debt, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures. In January 2001, SCW issued the remaining \$20 million of long-term debt under a Registration Statement filed in 1998 with the proceeds used to reduce then outstanding bank borrowing. SCW anticipates filing, before year-end 2001, a Registration Statement with the SEC for issuance, from time to time, of up to \$100 million in debt securities. The net proceeds from the sale of these securities will be used for general public utility purposes as authorized by the CPUC. On March 30, 2001, AWR purchased an additional \$25 million equity investment in SCW.

CCWC funds the majority of its operating expenses, payments on its debt and dividends, if any, through internal sources. CCWC also relies on external sources, including long-term debt, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures.

ASUS funds its operating expenses primarily through contractual management fees.

ELECTRIC ENERGY SITUATION IN CALIFORNIA

The electric energy environment in California has changed as a result of the December 1995 CPUC decision on restructuring of California's electric utility industry and state legislation passed in 1996. On September 23, 1996, the State of California enacted legislation, California Assembly Bill 1890 as amended by California Senate Bill 477, to provide a transition to a competitive market structure, which was expected to provide competition and customer choice, beginning January 1, 1998, with all consumers ultimately participating by 2002. SCW's Bear Valley electric customer service area was exempted by the CPUC from compliance with most of the provisions of the CPUC order and the state legislation.

On January 17, 2001, the Governor of the State of California proclaimed a state of emergency in California due to shortages of electricity available to certain of California's utilities (resulting in blackouts), the unanticipated and dramatic increases in electricity prices and the insufficiency of electricity available from certain of California's utilities to prevent disruption of electric service in California. The reasons for the high cost of energy are under investigation but are reported to include, among other things, limited supply caused by a lack of investment in new power plants to meet growth in demand, planned and unplanned outages of power plants, decreased availability of hydroelectric power from the Pacific Northwest due to lower than usual precipitation and higher demand for electricity in the region, transmission line constraints, increased prices for natural gas, the fuel used in many of the power plants serving the region, and an uncertain power market.

Recently, legislation has been enacted and executive orders issued, designed to encourage and accelerate the construction of additional power plants and the re-powering and updating of existing power plants to increase the supply of electricity in the State. A number of investigations have also been instituted as to the causes of the California energy situation and numerous pieces of legislation have been introduced at the California Legislature to deal with different aspects of the situation. The long-term impact of these legislative initiatives on SCW's Bear Valley Electric (BVE) customer service area is difficult to predict. For the short-term, however, management expects energy costs to remain high and to continue to be volatile.

On July 25, 2001, the Federal Energy Regulatory Commission (FERC) established the scope and methodology for calculating refunds related to transactions in the spot markets operated by the California Independent System Operator Corporation (Cal-ISO) and the California Power Exchange Corporation (Cal-PX) during the period October 2, 2000 through June 20, 2001, and ordered evidentiary hearings for the purpose of determining the amount of such refunds. SCW is a party to these proceedings, but has not

been a direct participant in either the Cal-ISO or Cal-PX markets. SCW does not believe that these proceedings or any other proceedings currently pending before FERC will result in any reduction in SCW's under-collected power costs in the near term, if at all.

All electric energy sold by SCW to customers in its BVE customer service area is purchased from others. Historically, SCW purchased electric energy from the Southern California Edison (SCE) unit of Edison International. However, in order to keep electric power costs as low as possible, SCW entered into an energy brokerage contract with Sempra Energy Corporation (Sempra). SCW purchased electric energy for its BVE customer service area from Sempra during the period beginning March 26, 1996 through April 30, 1999. SCW changed energy brokers to Illinova Energy Partners (Illinova) beginning May 1, 1999 through April 30, 2000, and with Dynegy Power Marketing, Inc. (Dynegy) since May 1, 2000, when Dynegy acquired Illinova.

In May 2000, SCW entered into a one-year, block forward purchase contract with Dynegy for 12 megawatts (MW's) of electric energy for its BVE customer service area at a price of \$35.50 per MW hour (MWh). This contract expired April 30, 2001.

SCW entered into a five-year, block forward purchase contract with Mirant Americas Energy Marketing, LP (Mirant) to supply its BVE customer service area with 15 MW's of electric energy at a price of \$95 per MWh beginning April 1, 2001 through December 31, 2006. SCW also finalized an agreement with Pinnacle West Capital Corporation on June 14, 2001 for an additional 8 MW's of electric energy to meet BVE's peak winter demands. The contract provides for pricing of \$75 per MWh from November 1, 2001 to March 31, 2002, \$48 per MWh from November 1, 2002 to March 31, 2003, and \$36 per MWh from November 1, 2003 to March 31, 2004. The average minimum load at SCW's Bear Valley Electric customer service area has been approximately 12 MW's. The average winter load has been 18 MW's with a winter peak of 38 MW's when the snowmaking machines at the ski resorts are operating. Under the terms of a contract with Dynegy that expires on April 30, 2002, Dynegy has agreed to procure electric energy for SCW in excess of the amounts it has purchased under the forward block purchase contracts previously described, to sell excess energy purchased by SCW under the terms of these contracts and to act as scheduling coordinator for SCW. SCW has withheld payment on \$3.4 million invoiced by Dynegy for the period December 20, 2000 through February 20, 2001, pending resolution of certain disputes. Most of this amount is included in the electric supply cost balancing account.

Demand for energy in SCW's Bear Valley Electric customer service area generally has been increasing. However, the ability of SCW to deliver purchased power to these customers is limited by the ability of the transmission facilities owned by Southern California Edison Company ("Edison") to transmit this power. See section entitled "Legal Proceedings" for a discussion of litigation between Edison and SCW regarding Edison's obligations to upgrade these transmission facilities. In order to meet these increasing energy demands, SCW is considering, in addition to the renegotiated block forward purchase of electric energy, a number of options including (i) the purchase of electric energy from on-site generation facilities installed by a third party, (ii) the use of portable generation, and (iii) the installation of generation owned by Registrant. Each of these options is expected to result in further increases in electric energy prices for customers of SCW's BVE customer service area.

WATER SUPPLY

For the three months ended September 30, 2001, SCW supplied a total of 26,962,000 ccf of water as compared to 27,829,000 ccf for the three months ended September 30, 2000. Of the total 26,962,000 ccf of water supplied during the third quarter of 2001, approximately 53.8% came from pumped sources and 43.6% was purchased from others, principally the Metropolitan Water District of Southern California (MWD) and its member agencies. The remaining 2.6% of total supply came from the United States Bureau

of Reclamation (the Bureau). For the three months ended September 30, 2000, 51.6%, 46.2% and 2.2% was supplied from pumped sources, purchased from MWD and the Bureau, respectively.

For the nine months ended September 30, 2001, SCW supplied a total of 65,384,000 ccf of water, 58.2% of which came from pumped sources, 40.0% was purchased and the remaining amount was supplied by the Bureau. During the nine months ended September 30, 2000, SCW produced 68,325,000 ccf of water. Of this amount 55.3% came from pumped sources, 43.0% was purchased and the remainder was provided by the Bureau.

During the twelve months ended September 30, 2001, SCW supplied 84,538,000 ccf of water as compared to 89,289,000 ccf supplied during the twelve months ended September 30, 2000. During the twelve months ended September 30, 2001, pumped sources provided 57.9% of total supply, 40.0% was purchased from MWD and its member agencies. The remaining 2.1% of total supply came from the United States Bureau of Reclamation (the Bureau) under a no-cost contract. For the twelve months ended September 30, 2000, 55.9%, 42.6% and 1.5%, respectively, was supplied from pumped sources, purchased from MWD and the Bureau.

The MWD is a water district organized under the laws of the State of California for the purpose of delivering imported water to areas within its jurisdiction. Registrant has 57 connections to the water distribution facilities of MWD and other municipal water agencies. MWD imports water from two principal sources: the Colorado River and the State Water Project (SWP). Available water supplies from the Colorado River and the SWP have historically been sufficient to meet most of MWD's requirements and MWD's supplies from these sources are anticipated to remain adequate through 2001. MWD's import of water from the Colorado River is expected to decrease in future years due to the requirements of the Central Arizona Project (CAP). In response, MWD has taken a number of steps to secure additional storage capacity and to increase available water supplies, by effecting transfers of water rights from other sources.

Registrant's water supply and revenues are significantly affected, both in the short-run and the long run, by changes in meteorological conditions. Water year 2001 was California's first dry year following six years of wet to average conditions. Storage in most of the State's major reservoirs was above average at the beginning of the water year, reflecting prior wet conditions. As of September 30, 2001 statewide water storage in reservoirs is 66% of capacity that is 96% of normal for this time of year. The impacts of a dry 2001 were minimized for most other large water systems by generally good storage in reservoirs and groundwater basins. Although overall groundwater conditions remain at adequate levels in most of SCW's operating areas, certain of SCW's groundwater supplies have been affected to varying degrees by various forms of contamination which, in some cases, have caused increased reliance on purchased water in its supply mix.

Likewise the Colorado River was in a surplus (wet) condition in water year 2001. The April-July inflow to Lake Powell is forecast to be 5.6 million acre-feet, which is 72% of average. The May 2001 snow pack in the Upper Colorado River basin was 78% of average.

CCWC obtains its water supply from three operating wells and from Colorado River water delivered by the CAP. The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdown, and to keep the well system in optimal operating condition. CCWC has an Assured Water Supply designation, by decision and order of the Arizona Department of Water Resources, providing in part that, subject to its requirements, CCWC currently has a sufficient supply of ground water and CAP water which is physically, continuously and legally available to satisfy current and committed demands of its customers, plus at least two years of predicted demands, for 100 years.

Notwithstanding such a designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can currently rely on its well water supplies for short-term periods. However, in any event, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs.

REGULATORY MATTERS

SCW is subject to regulation by the CPUC, which has broad powers with respect to service and facilities, rates, classifications of accounts, valuation of properties, the purchase, disposition and mortgaging of properties necessary or useful in rendering public utility service, the issuance of securities, the granting of certificates of convenience and necessity as to the extension of services and facilities and various other matters. CCWC is subject to similar regulation by the ACC.

AWR and ASUS are not regulated by the CPUC. The CPUC does, however, regulate certain transactions between SCW and its non-regulated affiliates.

The 22 customer service areas (CSAs) of SCW are grouped into 16 water districts and 1 electric district for ratemaking purposes. Water rates vary among the 16 ratemaking districts due to differences in operating conditions and costs. SCW monitors operations on a regional basis in each of these districts so that applications for rate changes may be filed, when warranted. Under the CPUC's practices, rates may be increased by three methods: general rate case increases (GRC's), offsets for certain expense increases and advice letter filings related to certain plant additions. GRC's are typically for three-year periods, which include step increases for the second and third year. Rates are based on a forecast of expenses and capital costs. GRC's have a typical regulatory lag of one year. Offset rate increases typically have a two to four month regulatory lag.

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

On October 25, 2001, SCW was authorized to collect \$488,000 over a two-year period to amortize the under-collection in its San Dimas supply expense balancing account. SCW had an aggregate under-collection of \$2.7 million in its water balancing account as of September 30, 2001.

As of September 30, 2001, SCW had accrued approximately \$19.9 million in under-collected purchased power costs included in the electric balancing account. In May 2000, SCW filed an Advice Letter with the CPUC for recovery over a five-year period of approximately \$2.4 million in under-collected power costs and removal of a negative amortization authorized by the CPUC in 1997. The CPUC issued a final order on May 24, 2001 authorizing an overall rate increase of 12.5%, with a condition of conducting a subsequent audit on the expenses included in the electric balancing account.

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

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

process of reviewing the application, rejected SCW's motion for immediate recovery. The application, if approved, will result in an additional electric rate increase of approximately 50%. SCW expects to continue to file additional Advice Letters to recover differences between actual electric power costs and amounts recovered through electric rates. SCW believes that timely regulatory actions to authorize SCW to recover its past and future power costs are necessary to avoid any material adverse effect on SCW's liquidity and financial condition. The schedule agreed to by the parties in this proceeding is abbreviated from the normal time frame in order to address this situation as expeditiously as possible. A final decision in this matter is expected during the second quarter of 2002, although management is unable to predict when or if the CPUC will authorize recovery of any or all of the costs related to the contracts. See the sections entitled "Liquidity and Capital Resources" and "Electric Energy Situation in California" for more information.

In March 2001, the CPUC approved SCW's filing for recovery of increased costs of electric power incurred to pump water for its water customers. In April 2001, SCW filed additional Advice Letters by ratemaking areas to increase water rates by approximately \$2.3 million company-wide to recover additional electric base rate increases, authorized recently by the CPUC for the Southern California Edison Company and the Pacific Gas and Electric Company. On October 25, 2001, the CPUC approved an increase of \$297,000 in rates for SCW's Claremont CSA to collect the electric base rate increases. The remaining Advice Letters are scheduled to be on Commission's agenda on November 8, 2001. CPUC staff has drafted a proposed resolution, also on November 8, 2001 agenda, that would limit SCW's ability to timely recover increased supply costs from its water customers. In essence, SCW would not be entitled to recover any deferred costs unless SCW was earning less than its authorized rate of return or otherwise filed for recovery of deferred supply costs in a general rate case application. SCW intends to vigorously oppose the proposed decision and does not expect that approval of this proposal would have a material impact in its results of operation or liquidity due to the balancing account mechanism. See the section entitled "Electric Energy Situation in California" for more information.

Hearings before the CPUC have concluded on SCW's application to include an additional \$1.6 million in rate base for a water treatment facility in SCW's Clearlake service area. In 1993, the CPUC disallowed the entire \$1.6 million and Registrant wrote off the entire amount. A draft decision issued on March 30, 2001 by the CPUC allows SCW to include \$500,000 of the \$1.6 million in the regulated rate base. An alternate draft decision issued by one of the CPUC Commissioners proposes to deny the application. An administrative Law Judge subsequently reopened the proceeding in August 2001. A final order is not anticipated until the second quarter of 2002.

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

On December 26, 2000, SCW filed an Advice Letter with the CPUC, in accordance with a prior CPUC resolution authorizing such a filing, seeking recovery of approximately \$1,800,000 in expenses associated with its lawsuits against Aerojet General Corporation and the Department of Water Resources of the State of California. An order, issued April 28, 2001, authorized SCW to recover these costs from customers in SCW's Arden-Cordova customer service area over a six-year period.

On January 26, 2001, the CPUC Staff, SCW and Peerless Water Co., a privately owned water company in Bellflower, California, signed a Settlement Agreement, which recommends approval of the proposed acquisition by SCW of Peerless. A proposed decision issued on October 5, 2001 by the Administrative Law Judge denied the transaction based on findings that it was not in the public interest. The final CPUC decision is anticipated in the fourth quarter of 2001. SCW intends to vigorously oppose the proposed decision.

There are no active regulatory proceedings affecting CCWC or its operations.

ENVIRONMENTAL MATTERS

1996 Amendments to Federal Safe Drinking Water Act

On August 6, 1996, amendments (the 1996 SDWA amendments) to the Safe Drinking Water Act (the SDWA) were signed into law. The 1996 SDWA revised the 1986 amendments to the SDWA with a new process for selecting and regulating contaminants. The U. S. Environmental Protection Agency (EPA) can only regulate contaminants that may have adverse health effects, are known or likely to occur at levels of public health concern, and the regulation of which will provide "a meaningful opportunity for health risk reduction." The EPA has published a list of contaminants for possible regulation and must update that list every five years. In addition, every five years, the EPA must select at least five contaminants on that list and determine whether to regulate them. The new law allows the EPA to bypass the selection process and adopt interim regulations for contaminants in order to address urgent health threats. Current regulations, however, remain in place and are not subject to the new standard-setting provisions. The DOHS, acting on behalf of the EPA, administers the EPA's program in California.

The 1996 SDWA amendments allow the EPA for the first time to base primary drinking water regulations on risk assessment and cost/benefit considerations and on minimizing overall risk. The EPA must base regulations on best available, peer-reviewed science and data from best available methods. For proposed regulations that involve the setting of maximum contaminant levels (MCL's), the EPA must use, and seek public comment on, an analysis of quantifiable and non-quantifiable risk-reduction benefits and costs for each such MCL.

SCW and CCWC currently test their wells and water systems according to requirements listed in the SDWA. Water from wells found to contain levels of contaminants above the established MCL's is treated to reduce contaminants to acceptable levels before it is delivered to customers.

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

AWR is currently unable to predict the ultimate impact that the 1996 SDWA amendments might have on the financial position or results of operation of its regulated utility subsidiaries. The CPUC and ACC ratemaking processes provide SCW and CCWC with the opportunity to recover prudently incurred capital and operating costs associated with water quality. Management believes that such incurred costs will be authorized for recovery by the CPUC and ACC, as appropriate.

Proposed Enhanced Surface Water Treatment Rule

On July 29, 1994, the EPA proposed an Enhanced Surface Water Treatment Rule (ESWTR), which would require increased surface-water treatment to decrease the risk of microbial contamination. The EPA has proposed several versions of the ESWTR for promulgation. The version selected for promulgation will be determined based on data collected by certain water suppliers and forwarded to the EPA pursuant to EPA's Information Collection Rule, which requires such water suppliers to monitor microbial and other contaminants in their water supplies and to conduct certain tests in respect of such contaminants. The EPA has adopted an Interim ESWTR applicable only to systems serving greater than 10,000 persons. On April 10, 2000, EPA published the proposed Long Term 1 Enhanced Surface Water Treatment Rule and Filter Backwash Rule (LT1FBR) in the Federal Register. This proposed rule will apply to each of SCW's five surface water treatment plants and the CCWC's surface water treatment plant. It basically extends the requirements of the ESWTR to systems serving less than 10,000 persons and will require some systems to institute changes to the return of recycled filter backwash flows within the treatment process to reduce the effects of recycled water on compromising microbial control. Registrant is presently unable to predict the ultimate impact of the LT1FBR, but it is anticipated that all five SCW's plants and the CCWC's plant will achieve compliance within the three year to five-year time frames identified by EPA.

Regulation of Disinfection/Disinfection By-Products

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

It is anticipated that the EPA will adopt Stage II rules pertaining to DBP's by year-end 2001. The EPA is not allowed to use the new cost/benefit analysis provided for in the 1996 SDWA amendments for establishing the Stage II rules applicable to DBP's but may utilize the regulatory negotiating process provided for in the 1996 SDWA amendments to develop the Stage II rule. The final rule is expected by 2002.

Ground Water Rule

On May 10, 2000, the EPA published the proposed Ground Water Rule (GWR), which establishes multiple barriers to protect against bacteria and viruses in drinking water systems that use ground water. The proposed rule will apply to all U.S. public water systems that use ground water as a source. The proposed GWR includes system sanitary surveys conducted by the state to identify significant deficiencies; hydrogeologic sensitivity assessments for undisinfected systems, source water microbial monitoring by systems that do not disinfect and draw from hydrogeologically sensitive aquifer or have detected fecal indicators within the system's distribution system; corrective action; and compliance monitoring for systems which disinfect to ensure that they reliably achieve 4-log (99.99%) inactivation or removal of viruses. The GWR is scheduled to be issued as a final regulation in 2002. While no assurance can be given as to the nature and cost of any additional compliance measures, if any, SCW and CCWC do not believe that such regulations will impose significant compliance costs, since they already currently engage in disinfection of their groundwater systems.

Regulation of Radon and Arsenic

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

The EPA has proposed new radon regulations following a National Academy of Sciences risk assessment and study of risk-reduction benefits associated with various mitigation measures. The National Academy of Sciences study is in agreement with much of EPA's original findings but has slightly reduced the ingestion risk initially assumed by EPA. EPA established an MCL of 300 Pico Curies per liter based on the findings and has also established an alternative MCL of 4000 Pico Curies per liter, based upon potential mitigation measures for overall radon reduction. It is our understanding that the United States Office of Management and Budget has sent the radon rule back to EPA for reconsideration. The final rule was expected to be effective in August 2000, but has been delayed by the new administration. SCW and CCWC currently monitor their wells for radon in order to determine the best treatment appropriate for affected wells.

Voluntary Efforts to Exceed Minimum Surface Water Treatment Requirements

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

Fluoridation of Water Supplies

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

Matters Relating to SCW's Arden-Cordova System

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

In February 1998, SCW was informed that nitrosodimethylamine (NDMA) had been detected in amounts in excess of the EPA reference dosage for health risks in four of its wells in its Rancho-Cordova system. The wells have been removed from service. Another well was also removed from service in September 1999 due to the contamination. NDMA is an additional by-product from the production of rocket fuel and it is believed that such contamination is related to the activities of Aerojet-General Corp. Aerojet-General Corp. has reimbursed SCW for constructing a pipeline to interconnect with the City of Folsom water system to provide an alternative source of water supply in SCW's Rancho-Cordova customer service area and has reimbursed SCW for costs associated with the drilling and equipping of two new wells. As of September 30, 2001, Aerojet-General Corp. has previously reimbursed SCW \$4.5 million of the approximately \$15 million in costs SCW has incurred. The remainder of the costs is subject to further reimbursement, including interest. Reimbursements received from Aerojet-General Corp. will reduce SCW's utility plant and costs of purchased water.

On October 25, 1999, SCW filed a lawsuit against the California Regional Water Quality Control Board (CRWQCB) alleging that the CRWQCB has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is contaminating the underground water supply in SCW's Rancho Cordova customer service area. In a separate case, also filed on October 25, 1999, SCW sued Aerojet General Corp. for causing the contamination. On March 22, 2000 Aerojet General Corp. filed a cross complaint against SCW for negligence and constituting a public nuisance. SCW is unable to determine at this time what, if any, potential liability it may have with respect to the cross complaint, but intends to vigorously defend itself against these allegations. Management cannot predict the outcome of these proceedings. See the section entitled "Legal Proceedings" for more information.

Matters Relating to SCW's Culver City System

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

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

On September 22, 1999, the U.S. EPA and the Los Angeles Regional Water Quality Control Board ordered Shell Oil Company, Shell Oil Products Company and Equilon Enterprises LLC to provide replacement drinking water to both SCW and the City of Santa Monica due to MTBE contamination of the Charnock Sub-Basin drinking water. The EPA has ordered Shell Oil to reimburse SCW for water replacement costs. The agencies are continuing to investigate the causes of MTBE pollution and intend to ensure that all responsible parties contribute to its clean up although SCW is unable to predict the outcome of the EPA's enforcement efforts.

On April 25, 2001, Registrant filed a lawsuit against all the potentially responsible parties for polluting and contaminating water existing in areas of the Sub-Basin from which SCW has pumped water through its Charnock Well Field. Management cannot predict the likely outcome of this proceeding.

Matters Relating to SCW's Yorba Linda System

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

SCW has met with the Regional Water Quality Control Board, the Orange County Water District, the City of Anaheim, the DOHS and three potentially responsible parties (PRP's) to define the extent of the MTBE contamination plume and assess the contribution from the PRP's. The PRP's have voluntarily initiated a work plan for regional investigation. While there have not been significant disruptions to the water supply in Yorba Linda at this point in time, no assurances can be given that MTBE contamination will not increase in the future.

SECURITY ISSUES

Since the tragic events of September 11, 2001, water utilities, including Registrant, have been advised to increase security at key facilities in order to avoid contamination of water supplies and other disruptions of service. Registrant has implemented a number of steps to address this concern, including the engagement of a security firm to develop further protection measures. Although Registrant has not experienced any material increase in costs related to these measures, management is unable to predict what, if any, additional measures will be implemented and what such measures may cost. Registrant will address its concerns regarding recovery of significant costs with the CPUC and the ACC, although management is unable to predict if these regulatory bodies will authorize recovery of any or all of these costs.

RISK FACTORS

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

OUR LIQUIDITY, AND IN CERTAIN CIRCUMSTANCES, EARNINGS, COULD BE ADVERSELY AFFECTED BY THE INCREASE IN ELECTRICITY PRICES IN CALIFORNIA.

Under California law, we are permitted to file for a rate increase to recover electric power costs not being recovered in current rates. Increases in electric power costs generally have no direct impact on profit margins, but do affect cash flows and can therefore impact the amount of our capital resources. Electric power costs have increased substantially in California since April 2000. As of September 30, 2001, SCW had accrued \$19.9 million in unrecovered power costs in its water and electric balancing accounts

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

the CPUC to authorize the recovery of these costs is necessary to avoid a material adverse effect on SCW's financial condition. Delays in obtaining regulatory approval or disallowance of recovery of costs could also affect SCW's ability to pay dividends to AWR. AWR's ability to pay dividends on its Common Shares is dependent upon the payment of dividends by SCW.

The Company has established reserves for its Bear Valley Electric division for possible disallowance of the recovery of past power costs included in the supply cost balancing account arising out of the California electric crisis as well as amounts currently in dispute with our energy supplier.

THE BALANCING ACCOUNT MECHANISM, ALTHOUGH APPLICABLE TO WATER SUPPLY COSTS, DOES NOT INSULATE THE COMPANY'S EARNINGS FROM CHANGES IN WATER SUPPLY MIX.

We recover certain water supply costs through a balancing account mechanism. Water supply costs include the cost of purchased water and power and groundwater production assessments. The balancing account is not, however, designed to insulate SCW's earnings against changes in supply mix. As a result, SCW may not recover increased costs due to increased use of purchased water, which is generally more expensive than groundwater, through the balancing account mechanism.

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

SCW has been sued in nineteen water quality related lawsuits alleging personal injury and property damage as a result of the delivery of water that was allegedly contaminated involving multiple plaintiffs and defendants. Sixteen of the lawsuits involve plaintiffs who receive water from the San Gabriel Basin in Los Angeles County. The other lawsuits involve plaintiffs in Sacramento County. On September 1, 1999, the First District Court of Appeal in San Francisco held that the CPUC had preemptive jurisdiction over regulated utilities and ordered dismissal of a series of these lawsuits, including seven of the lawsuits against SCW. On October 1, 1999, one group of plaintiffs appealed this decision to the California Supreme Court, which has accepted the petition. A hearing date before the California Supreme Court is scheduled on November 7, 2001 in Sacramento. The lawsuits not involved in the appeal are currently inactive pending the decision of the California Supreme Court.

In March 1998, the CPUC issued an Order Instituting Investigation as a result of water quality lawsuits being filed against water utilities in California. On November 2, 2000, the CPUC issued a final order concluding that the CPUC has jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; that DOHS requirements governing drinking water quality adequately protect the public health and safety; and that regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements.

If the California Supreme Court upholds the dismissal of the lawsuits, it is not known whether the plaintiffs will seek recourse through new legislation, or through the CPUC, and what effect if any, this may have on us. If the California Supreme Court permits these lawsuits to proceed, the lawsuits will be tried on the merits.

The CPUC has authorized a memorandum account for legal expenses incurred by water utilities, including SCW, in the water quality lawsuits. Under the memorandum account procedure, SCW may recover litigation costs from ratepayers to the extent authorized by the CPUC. The CPUC has not yet authorized SCW to recover any of its litigation costs. As of September 30, 2001, SCW had incurred \$888,700 in this memorandum account.

OUR OPERATING COSTS HAVE INCREASED AND ARE EXPECTED TO CONTINUE TO INCREASE AS A RESULT OF GROUNDWATER CONTAMINATION.

SCW's operations have been impacted by groundwater contamination in certain of its service territories. We have taken a number of steps to address this contamination, including the removal of wells from service, the construction of water treatment facilities and securing alternatives sources of supply from other areas not affected by the contamination.

In some cases, we have been reimbursed for our costs by potentially responsible parties. In other cases, we have taken legal action against parties that we believe to be potentially responsible for the contamination.

Certain government officials have suggested that water producers, such as SCW and CCWC, may have liability under certain environmental statutes if their pumping operations affect the movement of the contamination. SCW has been required to remove certain wells from service because its pumping activities might affect the movement of contamination in other service areas. Currently, neither the Environmental Protection Agency nor any other governmental agency has identified the Company or, to our knowledge, any other water producer, as a potentially responsible party. We cannot assure you, however, that SCW or CCWC will not be identified as a potentially responsible party in the future. Our future results of operations could be adversely affected if either SCW or CCWC is required to pay clean-up costs and is not allowed to recover such costs in rates.

ENVIRONMENTAL REGULATION HAS INCREASED, AND IS EXPECTED TO CONTINUE TO INCREASE, OUR OPERATING COSTS.

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

- The 1996 amendments to the Safe Drinking Water Act that require increased testing and treatment of water to reduce specified contaminants to maximum contaminant levels
- Approved regulations requiring increased surface-water treatment to decrease the risk of microbial contamination; these regulations will affect SCW's five surface water treatment plants and one CCWC plant
- Additional regulation of disinfection/disinfection byproducts expected to be adopted before the end of 2002; these regulations will potentially affect two of SCW's systems
- Additional regulations expected to be adopted in 2001 requiring disinfection of certain groundwater systems
- Currently pending regulation of arsenic and radon
- California customer requirements to fluoridate public water systems serving over 10,000 customers

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

THE ADEQUACY OF OUR WATER SUPPLIES DEPENDS UPON A VARIETY OF FACTORS BEYOND OUR CONTROL.

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

- Rainfall
- The amount of water stored in reservoirs
- The amount of water used by our customers and others
- Water quality, and

- Legal limitations on use

Population growth and increases in the amount of water used have increased limitations on use to prevent over-drafting of groundwater basins. The import of water from the Colorado River, one of SCW's important sources of supply, is expected to decrease in future years due to the requirements of the Central Arizona Project ("CAP"). We have also taken wells out of service due to groundwater contamination.

CCWC obtains its water supply from operating wells and from the Colorado River through the CAP. CCWC's water supply may be subject to interruption or reduction if there is an interruption or reduction in CAP water.

Water shortages may affect us in a variety of ways:

- They adversely affect supply mix by causing us to rely on more expensive purchased water
- They adversely affect operating costs
- They may result in an increase in capital expenditures for building pipelines to connect to alternative sources of supplies and reservoirs and other facilities to conserve or reclaim water

We may be able to recover increased operating and construction costs for our regulated systems through the ratemaking process. We may also be able to recover certain of these costs under the terms of our contractual agreements with municipalities. In certain circumstances, we may recover these costs from third parties that may be responsible, or potentially responsible, for groundwater contamination.

OUR EARNINGS ARE GREATLY AFFECTED BY WEATHER DURING DIFFERENT SEASONS.

The demand for water and electricity varies by season. Therefore, the results of operations for one period may not indicate results to be expected in another period. For instance, most water consumption occurs during the third quarter of each year when weather tends to be hot and dry. On warm days, use of water by residential and commercial customers may be significantly greater than on cold days because of the increased use of water for outdoor landscaping. Likewise the demand for electricity in our Big Bear service area is greatly affected by winter snows. An increase in winter snows reduces the use of snow making machines at ski resorts in the Big Bear area and, as a result reduces electric revenues.

Variability of weather from normal temperatures or changes in snow or rainfall can materially impact results of operations. As a result, weather has been and will continue to be one of the dominant factors in our financial performance.

OUR BUSINESS IS HEAVILY REGULATED AND, AS A RESULT DECISIONS BY REGULATORY AGENCIES AND CHANGES IN LAWS AND REGULATIONS CAN SIGNIFICANTLY AFFECT OUR BUSINESS.

Our revenues depend substantially on the rates that we are permitted to charge our customers and our ability to recover our costs in these rates, including the ability to recover the costs of purchased water, groundwater assessments and electric power costs in rates. In April 1999, the CPUC denied our request to recover through rates the costs associated with our participation in the Coastal Aqueduct Extension of the State Water Project. We also have an application pending before the CPUC to include an additional \$1.6 million in rate base for a water treatment plant in SCW's Clearlake service area that was previously disallowed by the CPUC in 1993. In addition, we have applications pending to acquire the Peerless Water Co. and to recover additional amounts in our water and electric balancing accounts.

We have been adversely affected by electric restructuring in California and the escalation of energy costs attributable thereto. The California Department of Water Resources has attempted to alleviate the crisis by purchasing electricity for Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas and Electric Company, but does not purchase any electricity for our Bear Valley electric division. FERC has taken certain actions intended to stabilize the energy market in the West and has ordered evidentiary proceedings for the purpose of determining the amount of refunds that may be due to direct participants in the Cal-ISO and Cal-PX markets. We are not direct participants in these markets. We therefore do not believe that this or any of the other proceedings currently pending before FERC will result, either directly or indirectly, in any reduction in SCW's under collected power costs in the near term, if at all.

OUR BUSINESS REQUIRES SIGNIFICANT CAPITAL EXPENDITURES.

The utility business is capital intensive. On an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. During calendar years 2000, 1999 and 1998, we spent \$45,786,000, \$51,578,000 and \$45,269,000, respectively, for these purposes. Our budgeted capital expenditures for calendar year 2001 for these purposes are approximately \$50,400,000. Actual expenditures for 2001 are expected to be lower because of the cash preservation plan adopted by the Company to conserve cash temporarily during the electric energy crisis.

We obtain funds for these capital projects from operations, contributions by developers and others and advances from developers (which must be repaid). We also periodically borrow money or issue equity for these purposes. We maintain bank lines of credit that we can use for these purposes. We cannot assure you that these sources will continue to be adequate or that the costs of funds will remain at levels permitting us to remain profitable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Registrant has no derivative financial instruments, financial instruments with significant off-balance sheet risks or financial instruments with concentrations of credit risk. The disclosure required is, therefore, not applicable.

PART II

ITEM 1. LEGAL PROCEEDINGS

SCW is a defendant in nineteen lawsuits involving claims pertaining to water quality. Sixteen of the lawsuits involve customer service areas located in Los Angeles County in the southern portion of the State of California; three of the lawsuits involve a customer service area located in Sacramento County in northern California.

On September 1, 1999, the First District Court of Appeal in San Francisco, in a published opinion entitled *Hartwell Corporation v. The Superior Court of Ventura County (Hartwell)*, held that the CPUC had preemptive jurisdiction over regulated public utilities and ordered dismissal of a series of lawsuits pertaining to water quality filed against water utilities, including SCW. Seven lawsuits against SCW have been ordered for dismissal by the state Court of Appeals -- the Adler (Case No. 1), Santamaria (Case No. 2), Anderson (Case No. 3), Dominguez (Case No. 4), Celi (Case No. 5), Boswell (Case No. 6), and Demciuc (Case No. 7) Matters. On October 11, 1999, one group of plaintiffs appealed to the California Supreme Court, which has accepted the case. A hearing date before the California Supreme Court on the Hartwell cases is scheduled on November 7, 2001 in Sacramento. Management is unable to predict the

outcome of this proceeding but, in any event, does not anticipate a decision prior to the fourth quarter of 2001.

On December 3, 1998, SCW was named as a defendant in a complaint in multiple counts, styled Abarca, et al. v. City of Pomona, et al. (Case No. 8), filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of 383 plaintiffs (the Abarca Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief.

SCW was named as a defendant, along with the City of Pomona, California and Xerox Corporation in the matter styled Adejare, et al. v. Southern California Water Company, et al. (Case No. 9), filed on July 22, 1999 in Los Angeles Superior Court which seeks recovery for wrongful death, battery and fraudulent concealment (the Adejare Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief.

In December 1997 SCW was named a defendant in the matter of Nathaniel Allen, Jr., et al. v. Aerojet-General Corporation, et al. (Case No. 10), which was filed in Sacramento Superior Court. The complaint makes claims based on wrongful death, personal injury, property damage as a result of nuisance and trespass, medical monitoring, and diminution of property values (the Allen Matter). Plaintiffs allege that SCW and other defendants have delivered water to plaintiffs which allegedly is, or has been in the past, contaminated with a number of chemicals, including TCE, PCE, carbon tetrachloride, perchlorate, Freon-113, hexavalent chromium and other, unnamed, chemicals. SCW filed Demurrers and Motion to Strike in this matter on June 5, 1998. A stay of all proceeding in the Allen matter is in effect pending the outcome of the California Supreme Court's proceeding in the Hartwell case.

In March 1998, SCW was named a defendant in the matter of Daphne Adams, et al. v. Aerojet General, et al. (Case No. 11) that was filed in Sacramento Superior Court (the Adams Matter). The complaint makes claims based on negligence, strict liability, trespass, public nuisance, private nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, violation of California Business and Professions Code section 17200 et seq., intentional infliction of emotional distress, intentional spoilage of evidence, negligent destruction of evidence needed for prospective civil litigation, wrongful death and medical monitoring. Plaintiffs seek damages, including general, punitive and exemplary damages, as well as attorney's fees, costs of suit, injunctive and restitutionary relief, disgorged profits and civil penalties, medical monitoring according to proof and other unspecified relief. SCW filed its Demurrers and Motion to Strike in this matter on June 5, 1998. A stay of all proceedings in the Adams Matter is in effect pending the outcome of the California Supreme Court's proceeding in the Hartwell case.

In May 2000, SCW was named a defendant in the matter of Wallace Andrew Pennington, et al. v. Aerojet General, et al. (Case No. 12) that was filed in Sacramento Superior Court (the Pennington Matter). The complaint makes claims based on negligence, intentional infliction of emotional distress, strict liability, public liability for ultra hazardous activity and fraudulent concealment. Plaintiffs allege that SCW and other defendants knowingly operated and maintained wells, which provided contaminated drinking water to the surrounding communities. Plaintiffs seek damages, including general, punitive and exemplary damages, as well as attorney's fees, costs of suit, special damages, according to proof of medical bills and lost wages and lost income as occasioned by personal injury and plaintiff's inability to pursue employment, and other unspecified relief. All counsels in the Pennington matter have agreed to a stay in this matter, pending the outcome of the Hartwell case.

In April 2000, SCW was named a defendant in the matter of Almelia Brooks, et al. v. Suburban Water Sys., et al. (Case No. 13) that was filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the Brooks Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in October 2000. Management is unable to predict the outcome of this proceeding.

In August 1999, SCW was named a defendant in the matter of Lori Alexander, et al. v. Suburban Water Sys., et al. (Case No. 14) that was filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the L. Alexander Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in October 2000. Management is unable to predict the outcome of this proceeding.

In December 2000, SCW was named a defendant in the matter of David Arnold, et al. v. City of Pomona, et al. (Case No. 15) that was filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict products liability, continuing trespass, permanent trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the Arnold Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in May 2001. Management is unable to predict the outcome of this proceeding.

In December 2000, SCW was named a defendant in the matter of Gilda Ambrose-Dubre, et al. v. City of Pomona, et al. (Case No. 16) that was filed in Los Angeles Superior Court which seeks recovery for negligence, strict products liability, continuing trespass, permanent trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, civil conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the Ambrose-Dubre Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in May 2001. Management is unable to predict the outcome of this proceeding.

In January 2001, SCW was named a defendant in the matter of Melissa Garrity Alvarado, et al. v. Suburban Water Systems, et al. (Case No. 17) that was filed in Los Angeles Superior Court which seeks recovery for negligence, survival of personal injuries, wrongful death, strict liability, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the Alvarado Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in May 2001. Management is unable to predict the outcome of this proceeding.

In March 2001, SCW was named a defendant in the matter of Charles Alexander, et al. v. City of Pomona, et al. (Case No. 18) that was filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict products liability, continuing trespass, permanent trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, civil conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the C. Alexander Matter). Plaintiffs seek damages, including general and special damages

according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in May 2001. Management is unable to predict the outcome of this proceeding.

In May 2001, SCW was named a defendant in the matter of Jennifer V. Williams and Lee Wright, et al. v. City of Pomona, et al. (Case No. 19) that was filed in Los Angeles Superior Court which seeks recovery for negligence, strict products liability, continuing trespass, permanent trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, civil conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the J. Williams Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. Management is unable to predict the outcome of this proceeding.

In light of the breadth of plaintiffs' claims in these matters, the lack of factual information regarding plaintiffs' claims and injuries, if any, and the fact that no discovery has yet been completed, SCW is unable at this time to determine what, if any, potential liability it may have with respect to these claims. Registrant believes there are no merits to these claims and intends to vigorously defend against them.

SCW is subject to self-insured retention provisions in its applicable insurance policies and has either expensed the self-insured amounts or has reserved against payment of these amounts as appropriate. SCW's various insurance carriers have, to date, provided reimbursement for costs incurred for defense against these lawsuits.

ORDER INSTITUTING INVESTIGATION (OII)

In March 1998, the CPUC issued an OII to regulated water utilities in the state of California, including SCW. The purpose of the OII was to determine whether existing standards and policies regarding drinking water quality adequately protect the public health and whether those standards and policies were being uniformly complied with by those water utilities. On November 2, 2000, a final decision from the CPUC concluded that the Commission has the jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; that DOHS requirements governing drinking water quality adequately protect the public health and safety; and that regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements.

The CPUC had previously authorized establishment of memorandum accounts to capture expenses related to OII. Under the memorandum account procedure, SCW may recover litigation costs from ratepayers to the extent authorized by the CPUC. The CPUC has not yet authorized SCW recover any of its litigation costs. As of September 30, 2001, SCW had incurred a net of \$888,700 in this memorandum account. Management believes that these expenses will be fully recovered but is unable to predict when, or if, the CPUC will authorize recovery of all or any of the costs.

OTHER LITIGATION

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

In a separate case, also filed on October 25, 1999, SCW sued Aerojet General Corp. for causing the contamination of the Sacramento County Groundwater Basin. On March 22, 2000 Aerojet General Corp. filed a cross complaint against SCW for negligence and constituting a public nuisance. Registrant

is unable to determine at this time what, if any, potential liability it may have with respect to the cross complaint, but intends to vigorously defend itself against these allegations. Management cannot predict the likely outcome of this proceeding.

The CPUC has authorized memorandum accounts to allow for recovery of costs incurred by SCW in prosecuting these cases from customers, less any recovery from the defendants or others. As of September 30, 2001, approximately \$5,313,500 has been recorded in the memorandum accounts. The CPUC has authorized SCW to increase rates, effective April 28, 2001, for recovery over a six-year period of approximately \$1,800,000, in expenses that were incurred on or before August 31, 2000. SCW will continue to file additional Advice Letters to recover the remaining costs. Management believes these costs are recoverable but cannot give assurance that the CPUC will ultimately allow recovery of all or any of the remaining costs through rates.

On April 25, 2001, Registrant filed a lawsuit against all the potentially responsible parties, who stored, transported and dispensed gasoline containing methyl tertiary butyl ether (MTBE) in underground storage tanks, pipelines or other related infrastructure. Said MTBE polluted and contaminated water existed in areas of the Sub-Basin from which SCW has pumped water through its Charnock Wall Field. As a result thereof, SCW ceased operation of its Charnock Well Field in October 1996. Management cannot predict the likely outcome of this proceeding.

SCW has been, in conjunction with the Southern California Edison (Edison) unit of Edison International, planning to upgrade transmission facilities to 115kv (the 115kv Project) in order to meet increased energy and demand requirements for SCW's Bear Valley Electric Service area. On December 27, 2000, SCW filed a lawsuit against Edison for declaratory relief and seeking damages for breach of contract as a result of delays in the 115kv Project. Subsequently Edison filed a cross-complaint against SCW for breach of contract, anticipatory breach, quantum meruit and common counts. Registrant has discussed various settlement options with Edison regarding this matter. However, management cannot predict the likely outcome of either the negotiations or the lawsuits.

Registrant is also subject to ordinary routine litigation incidental to its business. Other than as disclosed above, no legal proceedings are pending, except such incidental litigation, to which Registrant is a party or of which any of its properties is the subject, which are believed to be material.

ITEM 2. CHANGES IN SECURITIES

As of September 30, 2001, earned surplus amounted to \$75,027,000. As of September 30, 2001, there were no retained earnings restricted, under any of SCW's debt instruments, as to the payment of cash dividends on Common Shares. Delays in obtaining approval of the CPUC for recovery of energy costs in rates or disallowance of the recovery of such costs could affect SCW's ability to pay dividends to AWR. AWR's ability to pay dividends on its Common Shares is dependent upon the payment of dividends from SCW. CCWC is subject to contractual restrictions on its ability to pay dividends.

There are 493,039 and 63,411 Common Shares authorized but un-issued under the DRP and the 401(k) Plan, respectively, at September 30, 2001. Shares reserved for the 401(k) Plan are in relation to company matching contributions and for investment purposes by participants.

There are 250,000 Common Shares reserved for issuance under Registrant's 2000 Stock Incentive Plan. Under the Plan, stock options representing a total of 91,647 Common Shares upon exercise were granted to certain eligible employees on May 1, 2000 and January 2, 2001.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

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

ITEM 5. OTHER INFORMATION

On October 30, 2001, the Board of Directors of Registrant declared a regular quarterly dividend of \$0.325 per common share. The dividend will be paid December 1, 2001 to shareholders of record as of the close of business on November 6, 2001. In other actions, the Board of Directors declared regular quarterly dividends of \$0.25 per share, \$0.265625 per share and \$0.3125 per share on its 4%, 4-1/4% and 5% Cumulative Preferred Shares, respectively.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

There are no Exhibits during the period covered by the report.

Registrant filed a Form 8-K with the Securities and Exchange Commission on May 25, 2001, disclosing the CPUC order to increase rates at the Bear Valley Electric customer service area to recover \$2.4 million in deferred electric power costs over a five-year period. Included as an exhibit to the form 8-K was the press release issued by Registrant on May 25, 2001 for the announcement.

Registrant filed another Form 8-K with the Securities and Exchange Commission on August 24, 2001, which disclosed that the CPUC authorized an increase in rates at the Bear Valley Electric customer service area to recover \$8.7 million in deferred electric power costs over a five-year period. Included as an exhibit to the form 8-K was the press release issued by Registrant on August 23, 2001 for the announcement.

SIGNATURES

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

AMERICAN STATES WATER COMPANY
and its subsidiary
SOUTHERN CALIFORNIA WATER COMPANY

By: /s/ McClellan Harris III

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

By: /s/ Linda J. Matlick

Linda J. Matlick
Controller
Southern California Water Company

Dated: November 5, 2001