

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, 2000

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of September 30, 2000 the number of Common Shares outstanding, No Par Value with Stated Value of \$2.50, of American States Water Company was 10,078,038 all of which are listed on the New York Stock Exchange.

As of September 30, 2000, all of the 100 outstanding Common Shares of Southern California Water Company are owned by American States Water Company.

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

## ITEM 1. FINANCIAL STATEMENTS

## General

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

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

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

## Filing Format

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

AMERICAN STATES WATER COMPANY  
 CONSOLIDATED BALANCE SHEETS  
 ASSETS

	SEPTEMBER 30, 2000	DECEMBER 31, 1999
	-----	-----
	(Unaudited)	
	(in thousands)	
UTILITY PLANT, at cost		
Water .....	\$ 548,857	\$ 532,007
Electric .....	36,532	36,349
	-----	-----
	585,389	568,356
Less - Accumulated depreciation .....	(163,076)	(151,733)
	-----	-----
	422,313	416,623
Construction work in progress .....	48,700	32,972
	-----	-----
	471,013	449,595
	-----	-----
OTHER PROPERTY AND INVESTMENTS .....	11,418	10,583
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents .....	4,205	2,189
Accounts receivable -		
Customers, less reserves of \$783		
in 2000 and \$487 in 1999 .....	12,365	10,135
Other .....	4,880	4,347
Unbilled revenue .....	14,160	11,345
Materials and supplies, at average cost .....	1,268	1,153
Supply cost balancing accounts .....	8,072	4,774
Prepayments and other .....	4,483	4,851
Accumulated deferred income taxes - net .....	5,048	5,546
	-----	-----
	54,481	44,340
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets .....	18,440	19,941
Other deferred charges .....	10,819	8,722
	-----	-----
	29,259	28,663
	-----	-----
	\$ 566,171	\$ 533,181
	-----	-----

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
CAPITALIZATION AND LIABILITIES

	SEPTEMBER 30, 2000	DECEMBER 31, 1999
	-----	-----
	(Unaudited)	(Unaudited)
	(in thousands)	(in thousands)
<b>CAPITALIZATION</b>		
Common shareholders' equity .....	\$ 192,917	\$ 158,846
Preferred shares .....	1,600	1,600
Preferred shares subject to mandatory redemption requirements .....	360	360
Long-term debt .....	167,163	167,363
	-----	-----
	362,040	328,169
	-----	-----
<b>CURRENT LIABILITIES</b>		
Notes payable to banks .....	14,000	21,000
Long-term debt and preferred shares due within one year .....	260	340
Accounts payable .....	13,200	13,777
Taxes payable .....	8,098	5,432
Accrued interest .....	3,387	1,584
Other accrued liabilities .....	13,369	12,832
	-----	-----
	52,314	54,965
	-----	-----
<b>OTHER CREDITS</b>		
Advances for construction .....	57,924	57,485
Contributions in aid of construction .....	39,302	38,895
Accumulated deferred income taxes - net .....	49,412	48,302
Unamortized investment tax credits .....	2,996	3,064
Regulatory tax-related liability .....	1,828	1,861
Other .....	355	440
	-----	-----
	151,817	150,047
	-----	-----
	\$ 566,171	\$ 533,181
	-----	-----

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, 2000 AND 1999  
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
	(in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 51,510	\$ 48,250
Electric .....	3,493	3,240
Other .....	245	107
	-----	-----
	55,248	51,597
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	13,594	12,628
Power purchased for pumping .....	2,509	2,127
Power purchased for resale .....	3,213	1,629
Groundwater production assessment .....	1,524	1,832
Supply cost balancing accounts .....	(1,865)	(332)
Other operating expenses .....	4,322	3,783
Administrative and general expenses .....	6,210	6,792
Depreciation .....	3,666	3,380
Maintenance .....	2,226	2,064
Taxes on income .....	6,291	5,705
Other taxes .....	1,767	1,723
	-----	-----
	43,457	41,331
	-----	-----
Operating income .....	11,791	10,266
OTHER INCOME/(LOSS) .....	108	150
	-----	-----
Income before interest charges .....	11,899	10,416
INTEREST CHARGES .....	3,681	3,726
	-----	-----
NET INCOME .....	8,218	6,690
DIVIDENDS ON PREFERRED SHARES .....	(22)	(22)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 8,196	\$ 6,668
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING .....	9,516	8,958
	=====	=====
Basic Earnings Per Common Share .....	\$ 0.86	\$ 0.74
	=====	=====
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES .....	9,562	N/A
	=====	=====
Diluted earnings per share .....	\$ 0.86	N/A
	=====	=====
Dividends Declared Per Common Share .....	\$ 0.32	\$ 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, 2000 AND 1999  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
	(in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 128,185	\$ 119,673
Electric .....	10,660	9,931
Other .....	580	241
	-----	-----
	139,425	129,845
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	32,472	26,946
Power purchased for pumping .....	5,559	5,140
Power purchased for resale .....	6,792	5,150
Groundwater production assessment .....	5,797	5,520
Supply cost balancing accounts .....	(3,299)	(453)
Other operating expenses .....	12,553	11,170
Administrative and general expenses .....	18,122	20,544
Depreciation .....	11,275	10,270
Maintenance .....	7,371	5,874
Taxes on income .....	12,004	11,395
Other taxes .....	5,260	4,918
	-----	-----
	113,906	106,474
	-----	-----
Operating income .....	25,519	23,371
OTHER INCOME/(LOSS) .....	67	409
	-----	-----
Income before interest charges .....	25,586	23,780
INTEREST CHARGES .....	10,553	9,707
	-----	-----
NET INCOME .....	15,033	14,073
DIVIDENDS ON PREFERRED SHARES .....	(64)	(66)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 14,969	\$ 14,007
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING .....	9,145	8,958
	=====	=====
Basic Earnings Per Common Share .....	\$ 1.64	\$ 1.56
	=====	=====
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES .....	9,171	N/A
	=====	=====
Diluted earnings per share .....	\$ 1.63	N/A
	=====	=====
Dividends Declared Per Common Share .....	\$ 0.96	\$ 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, 2000 AND 1999  
(UNAUDITED)

	TWELVE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
	(in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 168,205	\$ 152,355
Electric .....	14,066	13,301
Other .....	730	290
	-----	-----
	183,001	165,946
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	41,669	33,251
Power purchased for pumping .....	7,812	7,245
Power purchased for resale .....	8,761	6,399
Groundwater production assessment .....	7,447	7,545
Supply cost balancing accounts .....	(3,318)	630
Other operating expenses .....	16,977	14,762
Administrative and general expenses .....	26,179	26,635
Depreciation .....	14,655	13,219
Maintenance .....	11,296	7,753
Taxes on income .....	13,954	13,041
Other taxes .....	6,906	6,436
	-----	-----
	152,338	136,916
	-----	-----
Operating income .....	30,663	29,030
OTHER INCOME/(LOSS) .....	189	1,257
	-----	-----
Income before interest charges .....	30,852	30,287
INTEREST CHARGES .....	13,790	12,576
	-----	-----
NET INCOME .....	17,062	17,711
DIVIDENDS ON PREFERRED SHARES .....	(86)	(88)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 16,976	\$ 17,623
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING .....	9,098	8,958
	=====	=====
Basic Earnings Per Common Share .....	\$ 1.87	\$ 1.97
	=====	=====
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES .....	9,117	N/A
	=====	=====
Diluted earnings per share .....	\$ 1.86	N/A
	=====	=====
Dividends Declared Per Common Share .....	\$ 1.28	\$ 1.275
	=====	=====

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, 2000 AND 1999  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
	(in thousands)	
<b>CASH FLOWS FROM -</b>		
<b>Operating Activities:</b>		
Net income .....	\$ 15,033	\$ 14,073
Adjustments for non-cash items:		
Depreciation and amortization .....	11,856	10,667
Deferred income taxes and		
investment tax credits .....	3,008	1,701
Other - net .....	(1,220)	(2,308)
Changes in assets and liabilities:		
Accounts receivable .....	(2,230)	(3,295)
Prepayments .....	368	796
Supply cost balancing accounts .....	(3,298)	(454)
Accounts payable .....	(577)	3,281
Taxes payable .....	2,666	3,257
Unbilled revenue .....	(2,815)	(3,821)
Other .....	1,692	5,383
Net Cash Provided .....	24,483	29,280
<b>Investing Activities:</b>		
Construction expenditures .....	(33,275)	(32,646)
Net Cash Used .....	(33,275)	(32,646)
<b>Financing Activities:</b>		
Issuance of securities .....	28,057	39,968
Receipt of advances and contributions .....	1,866	3,564
Repayments of long-term debt, net of		
redemption of preferred shares .....	(280)	(309)
Refunds on advances for construction .....	(2,817)	(1,333)
Changes in notes payable to banks .....	(7,000)	(27,000)
Common and preferred dividends paid .....	(9,018)	(8,665)
Net Cash Provided .....	10,808	6,225
Net Increase (Decrease) in Cash and Cash Equivalents .....	2,016	2,859
Cash and Cash Equivalents, Beginning of period .....	2,189	620
Cash and Cash Equivalents, End of period .....	\$ 4,205	\$ 3,479

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

SOUTHERN CALIFORNIA WATER COMPANY  
 CONSOLIDATED BALANCE SHEETS  
 ASSETS

	SEPTEMBER 30, 2000 ----- (Unaudited)	DECEMBER 31, 1999 -----
UTILITY PLANT, at cost	(in thousands)	
Water .....	\$ 548,857	\$ 532,007
Electric .....	36,532	36,349
	-----	-----
	585,389	568,356
Less - Accumulated depreciation .....	(163,076)	(151,733)
	-----	-----
	422,313	416,623
Construction work in progress .....	48,700	32,972
	-----	-----
	471,013	449,595
	-----	-----
OTHER PROPERTY AND INVESTMENTS .....	9,811	10,233
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents .....	3,437	2,020
Accounts receivable -		
Customers, less reserves of \$783		
in 2000 and \$487 in 1999 .....	12,368	10,135
Other .....	4,790	4,275
Intercompany receivable .....	--	--
Unbilled revenue .....	14,160	11,345
Materials and supplies, at average cost .....	1,268	1,153
Supply cost balancing accounts .....	8,072	4,774
Prepayments and other .....	4,483	4,851
Accumulated deferred income taxes - net .....	5,068	5,573
	-----	-----
	53,646	44,126
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets .....	18,440	19,941
Other deferred charges .....	10,694	8,599
	-----	-----
	29,134	28,540
	-----	-----
	\$ 563,604	\$ 532,494
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
CAPITALIZATION AND LIABILITIES

	SEPTEMBER 30, 2000	DECEMBER 31, 1999
	-----	-----
	(Unaudited)	
	(in thousands)	
<b>CAPITALIZATION</b>		
Common shareholders' equity .....	\$165,289	\$160,023
Long-term debt .....	167,163	167,363
	-----	-----
	332,452	327,386
	-----	-----
<b>CURRENT LIABILITIES</b>		
Notes payable to banks .....	14,000	21,000
Long-term debt and preferred shares due within one year .....	260	340
Accounts payable .....	12,940	13,619
Intercompany payable .....	27,261	--
Taxes payable .....	8,258	5,700
Accrued interest .....	3,387	1,584
Other accrued liabilities .....	13,232	12,818
	-----	-----
	79,338	55,061
	-----	-----
<b>OTHER CREDITS</b>		
Advances for construction .....	57,924	57,485
Contributions in aid of construction .....	39,302	38,895
Accumulated deferred income taxes - net .....	49,412	48,302
Unamortized investment tax credits .....	2,996	3,064
Regulatory tax-related liability .....	1,828	1,861
Other .....	352	440
	-----	-----
	151,814	150,047
	-----	-----
	\$563,604	\$532,494
	=====	=====

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, 2000 AND 1999  
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
	----- (\$ in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 51,509	\$ 48,250
Electric .....	3,493	3,240
	-----	-----
	55,002	51,490
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	13,594	12,628
Power purchased for pumping .....	2,508	2,127
Power purchased for resale .....	3,213	1,629
Groundwater production assessment .....	1,524	1,832
Supply cost balancing accounts .....	(1,865)	(332)
Other operating expenses .....	4,235	3,758
Administrative and general expenses .....	6,224	6,639
Depreciation .....	3,666	3,380
Maintenance .....	2,216	2,064
Taxes on income .....	6,225	5,728
Other taxes .....	1,765	1,723
	-----	-----
	43,305	41,176
	-----	-----
Operating income .....	11,697	10,314
OTHER INCOME/(LOSS) .....	(51)	149
	-----	-----
Income before interest charges .....	11,646	10,463
INTEREST CHARGES .....	3,681	3,725
	-----	-----
NET INCOME .....	7,965	6,738
DIVIDENDS ON PREFERRED SHARES .....	--	--
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 7,965	\$ 6,738
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	100	100
	=====	=====
Basic Earnings Per Common Share .....	\$ 79,650	\$ 67,380
	=====	=====
Dividends Declared Per Common Share .....	\$ 33,000	\$ 29,000
	=====	=====

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, 2000 AND 1999  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
	----- (\$ in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$128,185	\$119,673
Electric .....	10,660	9,931
	-----	-----
	138,845	129,604
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	32,472	26,946
Power purchased for pumping .....	5,559	5,140
Power purchased for resale .....	6,792	5,150
Groundwater production assessment .....	5,797	5,520
Supply cost balancing accounts .....	(3,299)	(453)
Other operating expenses .....	12,325	11,122
Administrative and general expenses .....	17,815	20,235
Depreciation .....	11,275	10,136
Maintenance .....	7,348	5,872
Taxes on income .....	11,997	11,472
Other taxes .....	5,254	4,916
	-----	-----
	113,335	106,056
	-----	-----
Operating income .....	25,510	23,548
OTHER INCOME/(LOSS) .....	(92)	385
	-----	-----
Income before interest charges .....	25,418	23,933
INTEREST CHARGES .....	10,553	9,707
	-----	-----
NET INCOME .....	14,865	14,226
DIVIDENDS ON PREFERRED SHARES .....	--	--
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 14,865	\$ 14,226
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	100	100
	=====	=====
Basic Earnings Per Common Share .....	\$148,650	\$142,260
	=====	=====
Dividends Declared Per Common Share .....	\$ 96,000	\$ 90,400
	=====	=====

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, 2000 AND 1999  
(UNAUDITED)

	TWELVE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
	----- (\$ in thousands, except per share amounts) -----	
<b>OPERATING REVENUES</b>		
Water .....	\$168,205	\$152,355
Electric .....	14,066	13,301
	-----	-----
	182,271	165,656
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	41,669	33,251
Power purchased for pumping .....	7,812	7,245
Power purchased for resale .....	8,761	6,399
Groundwater production assessment .....	7,447	7,545
Supply cost balancing accounts .....	(3,318)	630
Other operating expenses .....	16,679	14,694
Administrative and general expenses .....	25,657	26,224
Depreciation .....	14,655	12,952
Maintenance .....	11,270	7,750
Taxes on income .....	13,998	13,301
Other taxes .....	6,901	6,434
	-----	-----
	151,531	136,425
	-----	-----
Operating income .....	30,740	29,231
OTHER INCOME .....	31	1,589
	-----	-----
Income before interest charges .....	30,771	30,820
INTEREST CHARGES .....	13,790	12,576
	-----	-----
NET INCOME .....	16,981	18,244
DIVIDENDS ON PREFERRED SHARES .....	--	--
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 16,981	\$ 18,244
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	100	100
	=====	=====
Basic Earnings Per Common Share .....	\$169,810	\$182,440
	=====	=====
Dividends Declared Per Common Share .....	\$126,000	\$118,837
	=====	=====

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, 2000 AND 1999  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
	----- (in thousands) -----	
<b>CASH FLOWS FROM</b>		
<b>Operating Activities:</b>		
Net income .....	\$ 14,865	\$ 14,226
Adjustments for non-cash items:		
Depreciation and amortization .....	11,856	10,533
Deferred income taxes and		
investment tax credits .....	3,015	1,696
Other - net .....	36	(2,563)
Changes in assets and liabilities:		
Accounts receivable .....	(2,233)	(3,186)
Prepayments .....	368	796
Supply cost balancing accounts .....	(3,298)	(454)
Accounts payable .....	(675)	5,238
Intercompany Payable .....	27,257	--
Taxes payable .....	2,558	3,265
Unbilled revenue .....	(2,815)	(3,821)
Other .....	1,588	3,400
	-----	-----
Net Cash Provided .....	52,522	29,130
	-----	-----
<b>Investing Activities:</b>		
Construction expenditures .....	(33,274)	(32,511)
	-----	-----
Net Cash Used .....	(33,274)	(32,511)
	-----	-----
<b>Financing Activities:</b>		
Issuance of securities .....	--	39,968
Receipt of advances and contributions .....	1,866	3,564
Repayments of long-term debt, net of		
redemption of preferred shares .....	(280)	(310)
Refunds on advances for construction .....	(2,817)	(1,333)
Changes in notes payable to banks .....	(7,000)	(27,000)
Common and preferred dividends paid .....	(9,600)	(9,040)
	-----	-----
Net Cash Provided (Used) .....	(17,831)	5,849
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents .....	1,417	2,468
Cash and Cash Equivalents, Beginning of period .....	2,020	524
	-----	-----
Cash and Cash Equivalents, End of period .....	\$ 3,437	\$ 2,992
	=====	=====

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)

1. American States Water Company (AWR) was incorporated in 1998 in connection with the formation of a holding company by Southern California Water Company (SCW) and became a public company on July 1, 1998. AWR has no material assets other than the common stock of Southern California Water Company (SCW). SCW is a public utility company engaged principally in the purchase, production, distribution and sale of water, and the distribution and sale of electric energy in several mountain communities. Unless otherwise stated in this report, the term Registrant applies to both AWR and SCW, collectively.
2. For a summary of significant accounting policies and other information relating to these interim financial statements, reference is made to pages 24 through 31 of the 1999 Annual Report to Shareholders of AWR under the caption "Notes to Financial Statements."
3. Basic earnings per common share are calculated pursuant to SFAS No. 128 - Earnings per Share and are based on the weighted average number of common shares outstanding during each period and net income after deducting preferred dividend requirements. 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, thus, diluted earnings per share is also shown.
4. 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 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, and, failing that, sale of its 500 acre-foot entitlement in SWP. SCW believes that its full investment and on-going costs associated with its ownership will be fully recovered. See the section entitled "Rates and Regulation" for more information.
5. On June 22, 2000, the CPUC approved the implementation of new rates for four water ratemaking districts in SCW's Region III and combining tariff schedules into regional rates for the customer service areas that make up SCW's Region III, to be effective June 27, 2000. In March 2000, SCW filed applications to increase rates for all of the ratemaking districts in SCW's Region I as well as to combine those tariff schedules into regional rates. See the section entitled "Rates and Regulation" for more information.
6. As permitted by the CPUC, SCW maintains water and electric supply cost balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Recovery or refund of such over/under collections are recorded in income when received from customers and charged to balancing accounts when such costs are incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments.

7. AWR has two principal business units: a water and electric distribution unit, through its SCW subsidiary, and a non-regulated activity unit through the American States Utility Services (ASUS) subsidiary. All activities currently are geographically located within California, except for one contract providing customer service and billing services to a utility located in Arizona. SCW is a regulated utility, which operates both water and electric systems. AWR has no material operations other than its SCW subsidiary. On a stand-alone basis, AWR has no material assets other than its investments in its subsidiaries. The tables below set forth information relating to SCW's operating segments. SCW manages its operations on a regional basis using the five categories below as broad-level measures of profitability. Region I incorporates service areas in northern and central California; Region II contains service areas throughout Los Angeles; Region III encompasses water operations in eastern Los Angeles County, Orange County, San Bernardino County and Imperial County. SCW also provides electric service to the City of Big Bear Lake and surrounding areas. 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, 2000

	Water			Electric	Total SCW
	Region I	Region II	Region III		
Operating revenues	\$ 8,755	\$ 21,164	\$ 21,590	\$ 3,493	\$ 55,002
Operating income before income taxes	2,777	5,628	8,300	1,217	\$ 17,922
Identifiable assets	113,509	149,301	182,114	26,089	\$471,013
Depreciation expense	732	1,200	1,384	350	\$ 3,666
Capital additions	\$ 2,520	\$ 6,199	\$ 2,495	\$ 624	\$ 11,838

(dollars in thousands)

For The Three Months Ended September 30, 1999

	Water			Electric	Total SCW
	Region I	Region II	Region III		
Operating revenues	\$ 8,403	\$ 19,913	\$ 19,936	\$ 3,240	\$ 51,492
Operating income before income taxes	2,874	5,246	6,911	1,011	\$ 16,042
Identifiable assets	105,510	135,086	174,564	25,407	\$440,567
Depreciation expense	684	1,011	1,349	336	\$ 3,380
Capital additions	\$ 3,863	\$ 5,252	\$ 3,560	\$ 578	\$ 13,253

(dollars in thousands)

For The Nine months Ended September 30, 2000

	Water			Electric	Total SCW
	Region I	Region II	Region III		
Operating revenues	\$ 21,746	\$ 56,486	\$ 49,953	\$ 10,660	\$138,845
Operating income before income taxes	5,810	13,279	15,072	3,346	\$ 37,507
Identifiable assets	113,509	149,301	182,114	26,089	\$471,013
Depreciation expense	2,194	3,601	4,429	1,051	\$ 11,275
Capital additions	\$ 8,284	\$ 14,069	\$ 8,844	\$ 1,536	\$ 32,733

(dollars in thousands)

For The Nine months Ended September 30, 1999

	Water			Electric	Total SCW
	Region I	Region II	Region III		
Operating revenues	\$ 20,531	\$ 52,584	\$ 46,558	\$ 9,931	\$129,604
Operating income before income taxes	5,200	13,016	13,494	3,310	\$ 35,020
Identifiable assets	105,510	135,086	174,564	25,407	\$440,567
Depreciation expense	2,052	3,030	4,046	1,008	\$ 10,136
Capital additions	\$ 9,621	\$ 15,709	\$ 9,961	\$ 1,535	\$ 36,826



(dollars in thousands)

For The Twelve Months Ended September 30, 2000

	Water			Electric	Total SCW
	Region I	Region II	Region III		
Operating revenues	\$ 28,437	\$ 74,676	\$ 65,091	\$ 14,067	\$182,271
Operating income before income taxes	7,177	16,104	17,600	3,857	\$ 44,738
Identifiable assets	113,509	149,301	182,114	26,089	\$471,013
Depreciation expense	2,878	4,612	5,778	1,387	\$ 14,655
Capital additions	\$ 11,629	\$ 20,286	\$ 13,396	\$ 2,173	\$ 47,484

(dollars in thousands)

For The Twelve Months Ended September 30, 1999

	Water			Electric	Total SCW
	Region I	Region II	Region III		
Operating revenues	\$ 26,485	\$ 66,710	\$ 59,160	\$ 13,301	\$165,656
Operating income before income taxes	6,623	15,099	16,361	4,449	\$ 42,532
Identifiable assets	105,510	135,086	174,564	25,407	\$440,567
Depreciation expense	2,691	3,873	5,058	1,330	\$ 12,952
Capital additions	\$ 12,097	\$ 20,029	\$ 14,870	\$ 1,966	\$ 48,962

8. On March 10, 2000, Registrant entered into an agreement to acquire the common stock of Chaparral City Water Company, a privately operated water company serving approximately 10,000 customers in the town of Fountain Hills, Arizona and portions of Scottsdale, Arizona for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt. The acquisition will be temporarily funded with a combination of common equity and short-term debt. The transaction closed on October 10, 2000.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION****FORWARD-LOOKING INFORMATION**

Certain matters discussed in this report (including any documents incorporated herein by reference) are forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as the Company or Registrant "believes," "anticipates," "expects" or words of similar import. Similarly, statements that describe Registrant's future plans, objectives, estimates or goals are also forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rates, water quality and other regulatory matters, adequacy of water supplies, liquidity and capital resources, opportunities related to operations of municipally-owned water systems and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as utility restructuring, including ongoing local, state and federal activities; future economic conditions, including changes in customer demand and changes in market conditions for debt and equity; future climatic conditions; legislative, regulatory and other circumstances affecting anticipated revenues and costs; the number and effectiveness of competitors in Registrant's markets; changes in legislation; the nature and pace of technological changes; Registrant's ability to identify future markets and successfully expand existing ones; the mix of products and services offered in Registrant's target markets; and abilities of other companies to remain or become year 2000 ready. These important factors should be considered in evaluating any statement contained herein and/or made by Registrant or on its behalf.

**GENERAL**

American States Water Company (AWR) was incorporated in 1998 in connection with the formation of a holding company by Southern California Water Company (SCW) and became a public company on July 1, 1998. AWR has no material assets other than the common stock of SCW. SCW is a public utility company engaged principally in the purchase, production, distribution and sale of water (SIC No. 4941). SCW also distributes electricity in one customer service area (SIC No. 4911). SCW is regulated by the California Public Utilities Commission (CPUC) and was incorporated on December 31, 1929 under the laws of the State of California. AWR has another subsidiary, American States Utility Services, Inc. (ASUS) which contracts to lease, operate and maintain governmentally owned water and wastewater systems and to provide other services to local governments to assist them in the operation and maintenance of their water and wastewater systems. As of September 30, 2000, ASUS provided billing and other customer service functions to approximately 90,000 customers. Neither AWR nor ASUS are regulated by the CPUC.

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. All electric energy sold by SCW to customers in its Bear Valley Electric CSA was purchased under an energy brokerage contract with Sempra Energy Corporation from March 26, 1996 to

May 1, 1999, then with Illinova Energy Partners (Illinova) from May 1, 1999 to April 30, 2000, and with Dynegy Energy Services (Dynegy) since May 1, 2000 as a result of the merger of Dynegy and Illinova.

SCW served 244,985 water customers and 21,333 electric customers at September 30, 2000, or a total of 266,318 customers, compared with 264,708 total customers at September 30, 1999.

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%, 89.3% and 90.7% of total water revenues for the three, nine and twelve months ended September 30, 2000, respectively as compared to 86.6%, 88.7% and 90.9% for the three, nine and twelve months ended September 30, 1999, respectively.

#### 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. The transaction, if approved by the CPUC, is anticipated to close before the second quarter of 2001.

#### ACQUISITION OF CHAPARRAL CITY WATER COMPANY

On March 10, 2000, Registrant entered into an agreement to acquire the common stock of Chaparral City Water Company, a privately operated water company serving approximately 10,000 customers in the town of Fountain Hills, Arizona and portions of Scottsdale, Arizona for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt. The acquisition will be temporarily funded with a combination of common equity and short-term debt. The transaction closed on October 10, 2000. See Notes to Financial Statements for more information.

#### RESULTS OF OPERATION

Basic earnings per common share for the three months ended September 30, 2000 increased by 16.2% to \$0.86 per share as compared to \$0.74 per share for the comparable period last year. Basic per common share for the nine months ended September 30, 2000 increased by 5.1% to \$1.64 per share as compared to \$1.56 per share for the comparable period last year. The increase in the recorded results primarily reflects higher revenues during 2000 as is more fully discussed below. Basic earnings for the twelve months ended September 30, 2000 decreased by 5.1% to \$1.87 per share as compared to \$1.97 per share for the twelve months ended September 30, 1999 reflecting various reasons as discussed below. Fully diluted earnings per share for the three, nine and twelve months ended September 30, 2000 are \$0.86, \$1.63 and \$1.86 per share, respectively. Registrant had no dilutive securities outstanding in the same periods of 1999 and, accordingly, diluted earnings per share are not applicable for those periods.

Water sales for the three, nine and twelve months ended September 30, 2000 were 5.0%, 5.9%, and 6.4% higher than the same periods of last year, respectively. As compared to the same periods ended September 30, 1999, water operating revenues increased by 6.8%, 7.1% and 10.4% for the three, nine and twelve months ended September 30, 2000, respectively, due to the increased water sales and increases in rates authorized by the CPUC. New rates in four customer service areas and implementation of regional rates in the customer service areas that comprise SCW's Region III were effective June 27, 2000. Additional increases in revenues for the twelve months ended September 30, 2000 reflected the general rate case (GRC) increase for Registrant's Metropolitan customer service area effective January 1, 1999. See the section entitled "Rates and Regulation" for more information.

Kilowatt-hour sales of electricity increased by 8.6%, 5.8% and 4.6%, respectively, for the three, nine and twelve months ended September 30, 2000 as compared to the same periods ended September 30, 1999 due principally to an increase in sales to commercial customers. As a result of increased sales, electric operating revenues for the three, nine and twelve months ended September 30, 2000 increased by 7.8%, 7.3% and 5.8%, respectively.

Other revenues increased by more than 100% for the three, nine and twelve months ended September 30, 2000 due to new ASUS service contracts and increased activities with existing contracts.

Purchased water costs increased by 7.6% for the three months ended September 30, 2000 as compared to the same period ending in 1999 reflecting an increase of 13.0% in purchased water volume resulting from higher sales. As compared to the nine months and twelve months ended September 30, 1999, purchased water costs increased by 20.5% and 25.3%, respectively, reflecting increases of 14.6% and 15%, respectively, in purchased water, and a total of \$1.6 million and \$3.1 million, respectively, in refunds from the Water Replenishment District of Southern California (WRD) received during the nine and twelve months ended September 30, 1999. There were no similar refunds received during the same periods ended September 30, 2000. The nine-month and twelve-month comparisons were also affected by a decline in the receipt of reimbursements from potentially responsible parties related to contamination in SCW's Culver City CSA. Registrant received approximately \$572,500 and \$858,700 during the nine and twelve months ended September 30, 1999, respectively, as compared to reimbursements of \$197,800 received during the same periods ended September 30, 2000. See the section entitled "Environmental Matters - Matters Related to Culver City System."

Cost of power purchased for pumping increased by 18.0%, 8.2% and 7.8% for the three, nine and twelve months ended September 30, 2000, respectively, due to increased volume in groundwater pumping. Additional increases for the quarter ending September 2000 was due to timing differences in billings from Registrant's energy supplier.

As compared to the three, nine and twelve months ended September 30, 1999, the cost of power purchased for resale increased by 97.2%, 31.9% and 36.9% respectively due primarily to significant increases in energy costs during 2000 summer months in particular, and higher demand charges from Registrant's energy supplier.

Groundwater production assessment for the three months ended September 30, 2000 decreased by 16.8% as compared to the same period in 1999 primarily due to a reduction in the groundwater production assessment rate by the WRD effective July 2000 in SCW's Metropolitan CSA. As compared to the nine months ended September 30, 1999, the groundwater production assessment was 5% higher reflecting increased volumes in groundwater pumping.

A positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. Conversely, a negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. Registrant currently has a net under-collected position in both its water and electric balancing accounts. A net under-collection of balancing accounts for the three, nine and twelve months ended September 30, 2000 reflects previously discussed increase in energy costs and demand charges, and excess pumping penalty accruals. As compared to the twelve months ended September 30, 1999, the effect of increased energy demand charges for the twelve months ended September 2000 was partially offset by new rates effective January 1999 authorized to implement new supply costs and to increase collection of previously under-collected costs. The WRD refunds for the periods ending September 1999 as discussed previously also helped to decrease previously under-collected supply costs in 1999.

Other operating expenses increased by 14.2%, 12.4% and 15.0% for the three, nine and twelve months ended September 30, 2000, respectively, as compared to the same periods of last year. The increases were due to increased costs for water treatment, increased accruals for uncollectible accounts resulting from the increased revenues and increases in labor and billing costs due to additional billing and customer service contracts obtained by ASUS.

Administrative and general expenses decreased by 8.6%, 11.8% and 1.7% for the three, nine and nine months ended September 30, 2000, respectively, as compared to the same period ended September 30, 1999 due primarily to reduced reserves for litigation booked in 2000 and a reduction in pension expenses. See the section entitled "Legal Proceedings" for more information.

Depreciation expense increased by 8.5%, 9.8% and 10.9%, respectively, for the three, nine and twelve months ended September 30, 2000 reflecting, among other things, the effects of recording approximately \$52 million in net plant additions during 1999, depreciation on which began in January 2000. In addition, amortization of start-up and organizational costs associated with the formation of AWR was reflected in the twelve months ended September 30, 1999. There were no similar amortization costs for the twelve months ended September 30, 2000.

As compared to the three, nine and twelve months ended September 30, 1999, maintenance expense increased by 7.8%, 25.5% and 45.7%, respectively, due to increased maintenance on Registrant's water supply sources and maintenance of water mains. The comparisons are also largely affected by the timing differences. Registrant incurred significant maintenance expense in the fourth quarter of 1999 as Registrant focused on capital projects during the first part of 1999.

Taxes on income increased by 10.3%, 5.3% and 7.0% for the three, nine and twelve months ended September 30, 2000, respectively, as compared to the three, nine and twelve months ended September 30, 1999 due to a higher effective tax rate resulting from the turn-around of depreciation-related temporary differences, the benefits of which were previously flowed-through for rate-making purposes. The comparisons were also affected by higher pre-tax income.

Other taxes increased by 2.6%, 6.9% and 7.3%, respectively, for the three, nine and twelve months ended September 30, 2000, respectively, as compared to the same periods last year reflecting increased franchise fee payments resulting from higher revenues, increased property taxes due to higher property valuation assessments, and increased payroll taxes due to higher labor and labor-related costs.

As compared to the same periods ended September 30, 1999, other income for the three, nine and twelve months ended September 30, 2000 was 28.0%, 83.6% and 84.9%, respectively, lower. The decrease was due to the effect of recording the State Water Project entitlement with a value of approximately \$9.5 million, amortization on which began January 2000. The twelve-month comparison was affected by the flow-through of tax benefits related to refinancing of long-term debt in December 1998. There were no similarly flowed-through tax benefits for the twelve months ended September 2000. See the section entitled "Rates and Regulation" for more information.

Interest expense increased by 8.7% and 9.7%, respectively, for the nine and twelve months ended September 30, 2000 as compared to the nine and twelve months ended September 30, 1999, primarily due to additional short-term borrowing to finance construction expenditures. The issuance of \$40 million in long-term debt in January 1999 also affected the twelve-month comparison.

## LIQUIDITY AND CAPITAL RESOURCES

AWR funds its operating expenses, dividends on its outstanding Common and Preferred Shares, and makes its mandatory sinking fund payments, principally through dividends from SCW. AWR has filed a Registration Statement with the Securities and Exchange Commission (SEC) for issuance, from time to time, of up to \$60 million in Common Shares, Preferred Shares and/or debt securities. On August 16, 2000, Registrant issued 1,107,000 Common Shares at \$26-1/8 per share under this Registration Statement. Net proceeds from the offering were temporarily loaned to SCW. SCW has used these funds to repay borrowings under its short-term revolving credit lines. Subject to obtaining approval of the CPUC, the proceeds from the equity offering will be invested in SCW and Chaparral.

AWR maintains a revolving credit facility with a \$25 million aggregate borrowing capacity. At September 30, 2000, no amount was outstanding under this facility.

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

Because of the seasonal nature of its water and electric operations, SCW utilizes its short-term borrowing capacity to finance current operating expenses. The aggregate short-term borrowing capacity available to SCW under its three bank lines of credit was \$47 million as of September 30, 2000, of which a total of \$14 million was outstanding. SCW routinely employs short-term bank borrowing as an interim financing source prior to funding capital expenditures on a long-term basis.

In 1998, SCW filed a Registration Statement with the SEC for issuance, from time to time, of up to \$60 million in long-term debt. As of September 30, 2000, \$20 million was available for issuance.

SCW's construction program is designed to ensure its customers high quality service. SCW maintains an ongoing distribution main replacement program throughout its customer service areas, based on the priority of leaks detected, fire protection enhancement and a reflection of the underlying replacement schedule. In addition, SCW upgrades its electric and water supply facilities in accordance with industry standards, local requirements and CPUC requirements. SCW's Board of Directors has approved anticipated net capital expenditures of approximately \$55.4 million for 2000. Of the amount authorized, \$29.9 million has incurred as of September 30, 2000.

Neither AWR nor ASUS have material capital commitments; however, ASUS actively seeks opportunities to own, lease or operate municipal water and wastewater systems, which may involve significant capital commitments.

## WATER SUPPLY

For the three months ended September 30, 2000, SCW supplied a total of 27,829,000 ccf of water as compared to 26,886,000 ccf for the three months ended September 30, 1999. Of the total 27,829,000 ccf of water supplied during the second quarter of 2000, approximately 51.6% came from pumped sources and 46.2% was purchased from others, principally the Metropolitan Water District of Southern California (MWD) and its member agencies. The remaining 2.2% of total supply came from the United States Bureau of Reclamation (the "Bureau") under a no-cost contract. For the three months ended September 30, 1999, 54.6%, 42.3%, and 3.1% was supplied from pumped sources, purchased from MWD and the Bureau, respectively.

For the nine months ended September 30, 2000, SCW supplied a total of 68,325,000 ccf of water, 55.3% of which came from pumped sources, 43.0% was purchased and the remaining amount was supplied by the Bureau. During the nine months ended September 30, 1999, SCW produced 64,363,000 ccf of water.

Of this amount 59.7% came from pumped sources, 39.7% was purchased and the remainder was provided by the Bureau.

During the twelve months ended September 30, 2000, SCW supplied 89,289,000 ccf of water as compared to 83,402,000 ccf supplied during the twelve months ended September 30, 1999. During the twelve months ended September 30, 2000, pumped sources provided 55.9% of total supply, 42.6% was purchased from MWD and its member agencies. The remaining 1.6% of total supply came from the Bureau. For the twelve months ended September 30, 1999, 59.7%, 39.7% and 0.6%, 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 52 connections to the water distribution facilities of MWD and other municipal water agencies. MWD imports water from two principal sources: the Colorado River and the State Water Project (SWP). Available water supplies from the Colorado River and the SWP have historically been sufficient to meet most of MWD's requirements and MWD's supplies from these sources are anticipated to remain adequate through 2000. MWD's import of water from the Colorado River is expected to decrease in future years due to the requirements of the Central Arizona Project. In 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. The 2000 water year, October 1, 1999 to September 30, 2000 was classified as a near normal year. The Northern Sierra 8-station index recorded precipitation at 114% of normal. The statewide weighted average precipitation was 98% of normal. The eight major reservoirs in California with a capacity of 17,940,000 acre feet currently hold 11,073,000 acre feet which is 62% of capacity, as compared to 67% last year at this time. 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.

#### 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. 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.

GRC step increase for Metropolitan CSA and General Office Allocation step increases for Arden-Cordova, Bay Point, Simi Valley and Santa Maria CSAs were effective beginning January, 2000. Step increase for Ojai became effective April 23, 2000. Attrition increases for Arden-Cordova and Bay Point CSAs were also in effect beginning January 2000. Step increase for Ojai became effective April 2000.

Effective June 27, 2000, SCW was authorized by the CPUC to implement new increased rates for four water ratemaking districts in SCW's Region III and to combine tariff schedules into regional rates for the customer service areas that make up SCW's Region III. Despite the delay, which resulted in a loss of approximately \$1.4 million in revenues for the six months ended June 30, 2000, the new rates are anticipated to generate approximately \$2.5 million in additional revenues during the third and fourth quarters of 2000.

Applications to increase water rates by approximately \$5.8 million for ratemaking districts in SCW's Region I as well as to combine those tariff schedules into regional rates were filed in March 2000. A settlement agreement has been worked out among all parties, which among other things, provides for a 10% returns on equity. The new rates, if authorized in total or in part by the CPUC, would be effective January 1, 2001.

A CPUC Order authorizing SCW to increase rates by \$830,000 per year went in effect on October 24, 2000 for recovery of capital expenditures associated with Y2K readiness, not already included in Registrant's water rates. See the section entitled "Year 2000 Issue" for more information.

In October 2000, the CPUC approved SCW's application to provide water and wastewater services to a new Hearthiside Homes housing development in Orange County.

On July 6, 2000, the CPUC concluded its Order Instituting Rulemaking on its own motion to set rules and to provide guidelines for the privatization and excess capacity as it relates to investor owned water companies, including Registrant. The CPUC's order establishes a mechanism for sharing gross revenues, after pass-through of certain expenses, between customers of SCW and shareholders of Registrant. The order also requires water utilities, including Registrant, to file an advice letter with the CPUC for approval of services that utilize, in whole or in part, assets or employees reflected in the utility's revenue requirements.

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 reserved the entire amount. SCW's application demonstrated that the previously disallowed portion of the treatment plant is now fully "use and useful" and is providing service to customers. A decision on the Company's application is anticipated before year-end 2000. Recovery of the costs associated with the plant is included in the general rate increase application for Region I.

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. See the Notes to Financial Statements for more information.

## ENVIRONMENTAL MATTERS

## 1996 Amendments to Federal Safe Drinking Water Act

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

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

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

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

## Proposed Enhanced Surface Water Treatment Rule

On July 29, 1994, the EPA proposed an Enhanced Surface Water Treatment Rule (ESWTR), which would require increased surface-water treatment to decrease the risk of microbial contamination. The EPA has proposed several versions of the ESWTR for promulgation. The version selected for promulgation will be determined based on data collected by certain water suppliers and forwarded to the EPA pursuant to EPA's Information Collection Rule, which requires such water suppliers to monitor microbial and other contaminants in their water supplies and to conduct certain tests in respect of such contaminants. The EPA has adopted an Interim ESWTR applicable only to systems serving greater than 10,000 persons. 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 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 recycle filter backwash flows within the treatment process to reduce the effects of recycle on compromising microbial control. Registrant is presently unable to predict the ultimate impact of the LT1FBR, but it is anticipated that all five plants will achieve compliance within the three year to five-year time frames identified by EPA.

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

Registrant is also subject to the new regulations concerning disinfection/disinfection by-products (DBP's), Stage I of which regulations were effective in November, 1998 with full compliance required by 2001. Stage I requires reduction of 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. The Registrant is preparing to conduct studies in Calipatria to determine the best treatment methods to comply with this rule.

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

#### Ground Water Rule

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 November 2000. While no assurance can be given as to the nature and cost of any additional compliance measures, if any, Registrant does not believe that such regulations will impose significant compliance costs, since SCW already currently engages in disinfection of its groundwater systems.

#### Regulation of Radon and Arsenic

Registrant expects to be subject to new regulations regarding radon and arsenic. It is anticipated that the EPA will propose a reduction in the federal standard on arsenic from 50 parts per billion (ppb) to 5 ppb. The proposed arsenic rule was published in the Federal Register on June 22, 2000. EPA proposed 5 ppb as the lead regulatory option, but will take comments on 3 ppb and 10 ppb options as well. Compliance with an MCL of 5 ppb will require Registrant to implement costly well-head treatment remedies such as ion exchange or, alternatively, to purchase additional and more expensive water supplies already in compliance, for blending with well sources. The final rule is expected to be published in January 2001. The Registrant is currently conducting studies to investigate new arsenic treatment systems for affected wells.

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. The final rule was expected to be effective in August 2000, but has been delayed. The Registrant is currently conducting studies to determine the best treatment 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

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

#### Matters Relating to Arden-Cordova System

In January 1997, SCW was notified that ammonium perchlorate in amounts above the state-determined action level had been detected in three of its 27 wells serving its Arden-Cordova system. Aerojet-General 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 Arden-Cordova customer service area of detection of ammonium perchlorate in amounts in excess of this action level. In April 1997, SCW found ammonium perchlorate in three additional wells and, at that time, removed those wells from service until it was determined that the levels were below the state-determined action level. Those wells were returned to service. SCW periodically monitors these wells to determine that levels of perchlorate are below the action level currently in effect.

In February 1998, SCW was informed that nitrosodimethylamine (NDMA) had been detected in amounts in excess of the EPA reference dosage for health risks in four of its wells in its Arden-Cordova system. The wells have been removed from service. Another well has also been 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(s) of water supply in SCW's Arden-Cordova customer service area and has reimbursed SCW for costs associated with the drilling and equipping of two new wells. As of September 30, 2000, Aerojet-General Corp. has previously reimbursed Registrant \$4.5 million. The remainder of the costs is subject to further reimbursement, including interest. The reimbursement from Aerojet-General Corp. reduces 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. 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 outcome of these proceedings. See the section entitled "Legal Proceedings" for more information.

#### Matters Relating to 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 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. Registrant is unable to predict the outcome of the EPA's enforcement efforts.

#### Matters Relating to 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 Metropolitan Water District of Southern California 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 California Department of Health Services 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.

## Bear Valley Electric

SCW has been, in conjunction with the Southern California Edison unit of Edison International, planning to upgrade transmission facilities to 115kv (the 115kv Project) in order to meet increased energy and demand requirements. The 115kv Project is subject to an environmental impact report (EIR) and delays in approval of the EIR may impact service in SCW's Bear Valley Electric Service customer service area. SCW has, however, taken other measures, that will be enacted on an emergency basis, to meet load growth and mitigate delays in approval of the EIR. In addition, third parties willing to construct gas-fired generating facilities, sufficient to meet the peaking and future capacity needs of Bear Valley Electric, in exchange for a long-term purchase contract have approached SCW. Management is unable at this time to predict if such an arrangement will be economically beneficial to customers or if the generating facility can meet all environmental requirements.

## YEAR 2000 ISSUE

Registrant has no Y2K incidents, business disruptions, failures or legal proceedings to report. There were no actual or anticipated effects or changes to Registrant's operating trends or revenue patterns as a result of the transition from December 1999 to January 2000. SCW formally announced its 100% Y2K Ready status when it filed its Compliance Report with the CPUC on November 1, 1999. Registrant has filed its final Compliance Report with the CPUC in March 2000.

Not all Y2K problems were necessarily expected to surface in early 2000. Registrant does not have, and may never fully have, sufficient information about the Y2K exposure of third parties to adequately predict the risks posed by them to Registrant. If the third parties later discover any Y2K problems that are not remedied, resulting problems could include temporary loss of utility services and disruption of water supplies.

Costs incurred to address Y2K issues are estimated to be approximately \$5.2 million. A CPUC order authorizing SCW to increase rates by \$830,000 per year went in effect on October 24, 2000 for recovery of investments made in preparation for Y2K readiness, not already included in Registrant's water rates.

## RISK FACTOR SUMMARY

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

## Litigation

SCW has been sued in fourteen water-quality related lawsuits:

- a suit filed on April 24, 1997 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a federal superfund site
- a suit filed on July 29, 1997 alleging personal injury and property damage as a result of the delivery contaminated of water; few of our systems are located in the geographical area covered by this suit

- a suit filed on December 8, 1997 alleging personal injury and property damage as a result of the delivery of contaminated water in SCW's Arden-Cordova service area
- a suit filed on February 2, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- a suit filed on February 4, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- a suit filed in March 2, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water in SCW's Arden-Cordova service area
- a suit filed on June 29, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- two suits filed on July 30, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- a suit filed on December 3, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- a suit filed on July 22, 1999 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- a suit filed on May 16, 2000 alleging personal injury and property damage as a result of the delivery of contaminated water in SCW's Arden-Cordova service area
- a suit filed on April 13, 2000 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- a suit filed on August 5, 1999 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site

On September 1, 1999, the First District Court of Appeal in San Francisco, held that the CPUC had preemptive jurisdiction over regulated public utilities and ordered dismissal of a series of lawsuits against water utilities, including seven of the lawsuits against SCW. On October 11, 1999 one group of plaintiffs appealed the decision to the California Supreme Court, which has accepted the petition. Management cannot predict the outcome of the proceeding.

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

- whether existing standards and policies regarding drinking water quality adequately protect the public health
- whether water utilities are in compliance with existing standards

The Administrative Law Judge assigned to the OII has issued a draft decision finding that water utilities, including SCW, have complied with DOHS regulation and requirements. SCW is unable to predict whether the draft decision will be approved in part or in its entirety.

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, 2000, Registrant had incurred \$879,500 in the OII-related memorandum account.

#### Environmental Regulation

SCW is 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 minimum containment levels
- interim regulations expected to be adopted before the end of 2000 requiring increased surface-water treatment to decrease the risk of microbial contamination; these regulations will affect SCW's five surface water treatment plants
- 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 before the end of 2000 requiring disinfection of certain groundwater systems; these regulations will potentially impact several of SCW's systems using groundwater supplies
- potential regulation of radon and arsenic
- new California requirements to fluoridate public water systems serving over 10,000 customers

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

#### Rates and Regulation

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

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

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

In addition, SCW recovers certain supply costs through a balancing account mechanism. Supply costs include the cost of purchased water and power and groundwater production assessments. The balancing account mechanism is intended to insulate SCW's earnings from changes in supply costs that are beyond SCW's control. The balancing account is not, however, designed to insulate SCW's earnings

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

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

- the OII
- applications filed by SCW to increase rates and consolidate all of its Region I rate-making jurisdictions
- an advice letter filed by SCW to recover the previous disallowed portion of a water treatment facility in SCW's Clearlake service area.

#### Adequacy of Water Supplies

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

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

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

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

- they adversely affect supply mix by causing Registrant 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. Registrant 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. As of September 30, 2000, Aerojet General Corp. has previously reimbursed Registrant approximately \$4.5 million for costs associated with the

cleanup of the groundwater supply for our Arden-Cordova System and for the increased costs of purchasing water and developing new sources of groundwater supply. On October 25, 1999, we sued the California Regional Water Quality Control Board (CRWQCB) alleging that it has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is contaminating the underground water supply in our Rancho Cordova customer service area. In a separate lawsuit, also filed on October 25, 1999, we sued Aerojet General Corp. for causing the contamination. On March 22, 2000 Aerojet General Corp. filed a cross complaint against us for negligence and constituting a public nuisance. We cannot predict the outcome of these lawsuits but we will defend ourselves against these allegations. Two potentially responsible parties on matters relating to the clean-up and purchase of replacement water in the Charnock Basin, located in the cities of Santa Monica and Culver City, have previously reimbursed us for replacement water and certain legal and consulting expenses. The Charnock Basin is in our Culver City customer service area.

### 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 fourteen lawsuits involving claims pertaining to water quality. Eleven 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. See the section entitled "Risk Factor Summary" for more information.

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 has appealed to the California Supreme Court, which has accepted the case. 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 served on June 18, 1999.

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 proceeding 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 councils 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 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 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.

#### ORDER INSTITUTING INVESTIGATION

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

On June 10, 1999, the CPUC issued an interim order, which established that the CPUC has jurisdiction to conduct the investigation regarding matters related to water quality over those water utilities subject to its authority. The Administrative Law Judge assigned to the OII has issued a draft decision finding that water utilities, including SCW, have complied with DOHS regulation and requirements. On July 7, 2000, the ALJ's draft decision was bifurcated into two separate draft decisions -- a Second Interim Opinion Resolving Substantive Water Quality Issues and a Final Opinion Resolving Motions to Compel Discovery and Motions to Withdraw from Proceeding. SCW is unable to predict whether the draft decisions will be approved in part or in their entirety by the CPUC. SCW anticipates a final decision during the fourth quarter of 2000.

#### OTHER LITIGATION

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

In a separate case, also filed on October 25, 1999, SCW sued Aerojet General 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, 2000, approximately \$1,534,400 has been recorded in the memorandum accounts. SCW anticipates it will file for recovery of these costs in accordance with CPUC approved procedures but is unable to predict if the CPUC will authorize recovery of all or any of such costs.

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, 2000, earned surplus amounted to \$67,529,000, none of which was restricted as to payment of cash dividends on Registrant's Common Shares by any terms of Registrant's debt instruments.

On August 16, 2000, Registrant sold 1,107,000 Common Shares, no par value with a stated value of \$2.50 per share in a public offering, priced at \$26-1/8 per share.

As of September 30, 2000, Registrant also issued 6,550 and 6,817 Common Shares, respectively, under Registrant's Dividend Reinvestment and Common Share Purchase Program (DRP), and Investment Incentive Program (401-k). Authorized but unissued Common Shares include 493,450, 64,591 and 250,000 Common Shares reserved for issuance under Registrant's DRP, 401-k and 2000 Stock Incentive Plan, respectively. Common Shares reserved for the 401-k Plan are in relation to the matching contributions by SCW and for investment purposes by participants. Under the 2000 Stock Incentive Plan, stock options representing 45,657 common shares upon exercise were granted to certain eligible employees on May 1, 2000.

#### 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

None.

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

Exhibit 27. Schedule UT. (Submitted in electronic format only to the Securities and Exchange Commission.)

No Reports of Form 8-K were filed during the period covered by this report.

## SIGNATURES

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

AMERICAN STATES WATER COMPANY  
and its subsidiary  
SOUTHERN CALIFORNIA WATER COMPANY

By: /s/ McClellan Harris III .

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

By: /s/ Linda J. Matlick

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Linda J. Matlick  
Controller  
Southern California Water Company

Dated: October 31, 2000

UT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEETS AND INCOME STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS FILED HEREWITH.

0000092116

SOUTHERN CALIFORNIA WATER COMPANY

1,000

9-MOS	DEC-31-2000	JAN-01-2000	SEP-30-2000	PER-BOOK
	471,013			
	11,418			
		54,481		
		29,259		
			0	
			566,171	
				25,195
	100,193			
		67,529		
192,917				
	400			
				1,600
	166,921			
		14,000		
	0			
0				
180				
	40			
	462			
				40
190,131				
566,171				
	139,425			
		12,004		
	101,902			
	113,906			
		25,519		
				67
25,586				
	10,553			
				15,033
	64			
14,969				
	8,955			
	0			
	24,483			
				1.64
				1.63