

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

COMMISSION FILE NO.	REGISTRANT AND STATE OF INCORPORATION ADDRESS AND TELEPHONE NUMBER	IRS EMPLOYEE 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

Securities registered pursuant to Section 12(b) of the Act:

AMERICAN STATES WATER COMPANY COMMON SHARES, \$2.50 STATED VALUE	NEW YORK STOCK EXCHANGE
---	-------------------------

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

Indicate by check mark whether Registrant 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 and has been subject to such filing requirements for the past 90 days.

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

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

The aggregate market value of the total voting stock held by non-affiliates of American States Water Company was approximately \$263,068,000 on March 20, 2000. The closing price per Common Share on that date, as quoted in the Western Edition of The Wall Street Journal, was \$29-3/8. Voting Preferred Shares of American States Water Company, for which there is no established market, were valued on March 20, 2000 at \$1,793,000 based on a yield of 4.80%. As of March 20, 2000, the number of Common Shares of American States Water Company, \$2.50 Stated Value, outstanding was 8,957,671. As of that same date, all 100 outstanding Common Shares of Southern California Water Company were owned by American States Water Company.

DOCUMENTS INCORPORATED BY REFERENCE

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

AMERICAN STATES WATER COMPANY  
AND  
SOUTHERN CALIFORNIA WATER COMPANY

FORM 10-K

INDEX

	Page No. -----
<b>PART I</b>	
Item 1: Business	1
Item 2: Properties	2 - 3
Item 3: Legal Proceedings	3 - 5
Item 4: Submission of Matters to a Vote of Security Holders	5
<b>PART II</b>	
Item 5: Market for Registrant's Common Equity and Related Stockholder Matters	5 - 6
Item 6: Selected Financial Data	7
Item 7: Management's Discussion and Analysis of Financial Conditions and Results of Operation	7 - 21
Item 7A: Quantitative and Qualitative Disclosures About Market Risk	22
Item 8: Financial Statements and Supplementary Data	23 - 48
Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	49
<b>PART III</b>	
Item 10: Directors and Executive Officers of Registrant	49
Item 11: Executive Compensation	49
Item 12: Security Ownership of Certain Beneficial Owners and Management	49
Item 13: Certain Relationships and Related Transactions	49
<b>PART IV</b>	
Item 14: Exhibits, Financial Schedules and Reports on Form 8-K	49 - 56
Signature(s)	57 - 58

## ITEM 1. BUSINESS

This annual report on Form 10-K is a combined report being filed by two separate Registrants: American States Water Company (hereinafter "AWR") and Southern California Water Company (hereinafter "SCW"). 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.

## GENERAL

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

SCW is organized into three regions and one electric customer service area operating within 75 communities in 10 counties in the State of California and provides water service in 21 customer service areas. Region I incorporates 7 customer service areas in northern and central California; Region II has 4 customer service areas located in Los Angeles; Region III incorporates 10 water customer service areas. SCW also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County. All electric energy sold by SCW to customers in its Bear Valley Electric customer service area was purchased under an energy brokerage contract with Sempra Energy Corporation from March 26, 1996 to May 1, 1999, and with Illinova Energy Partners, currently under the name of Dynegey Energy Services resulting from the merger of Dynegey and Illinova, since May 1, 1999.

SCW served 244,086 water customers and 21,181 electric customers at December 31, 1999, or a total of 265,267 customers, compared with 263,499 total customers at December 31, 1998.

## 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.

## 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. Chaparral City Water Company was purchased from MCO Properties Inc., a wholly-owned subsidiary of MAXXAM Inc. This marks the first acquisition outside of California for Registrant. The sale of Chaparral City Water Company requires notification to the Arizona Corporation Commission and other conditions customary in transactions of this type. The approval of Registrant's shareholders is not required. It is anticipated that the transaction will close within one year.

## COMPETITION

The business of SCW is substantially free from direct and indirect competition with other public utilities, municipalities and other public agencies. AWR's other subsidiary, ASUS, actively competes with other investor-owned utilities, other third party providers of water and wastewater services, and governmental entities on the basis of price and quality of service.

## EMPLOYEE RELATIONS

Registrant had 492 employees as of December 31, 1999 as compared to 470 at December 31, 1998. Seventeen positions in SCW's Bear Valley Electric customer service area are covered by a collective bargaining union agreement, which expires in 2002, with the International Brotherhood of Electrical Workers. Sixty positions in SCW's Metropolitan ratemaking district are covered by a collective bargaining unit agreement, which expires in 2001, with the Utility Workers of America. Registrant has no other unionized employees.

## ITEM 2 - PROPERTIES

### FRANCHISES AND CONDEMNATION OF PROPERTIES

SCW holds franchises from incorporated communities and counties which it serves. SCW holds certificates of public convenience and necessity granted by the CPUC in each of the ratemaking districts it serves. SCW's certificates, franchises and similar rights are subject to alteration, suspension or repeal by the respective governmental authorities having jurisdiction.

The laws of the State of California provide for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation. Registrant has not been, within the last three years, involved in activities related to the condemnation of any of its water customer service areas or in its Bear Valley Electric customer service area.

### ELECTRIC PROPERTIES

SCW's electric properties are all located in the Big Bear area of San Bernardino County. As of December 31, 1999, SCW operated 28.7 miles of overhead 34.5 KV transmission lines, 0.6 miles of underground 34.5 KV transmission lines, 173.1 miles of 4.16 KV or 2.4 KV distribution lines, 41.7 miles of underground cable and 14 sub-stations. There are no generating plants in SCW's system.

### OFFICE BUILDINGS

Registrant's general offices are housed in a single-story office building located in San Dimas, California. The land and the building, which was completed and occupied in early 1990, are owned by Registrant. The Registrant also owns and occupies certain facilities housing regional, district and customer service offices while other such facilities are housed in leased premises.

### WATER PROPERTIES

As of December 31, 1999, SCW's physical properties consisted of water transmission and distribution systems which included 2,742 miles of pipeline together with services, meters and fire hydrants and 436 parcels of land, generally less than 1 acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities including five surface water treatment plants.

As of December 31, 1999, SCW owned 297 wells. Certain wells have been removed from service due to water quality problems. (See Environmental Matters to the Management's Discussion and Analysis) All wells are equipped with pumps with an aggregate capacity of approximately 240 million gallons per day. SCW has 40 connections to the water distribution facilities of the Metropolitan Water District of Southern California (MWD) and other municipal water agencies. SCW's storage reservoirs and tanks have an aggregate capacity of approximately 97 million gallons. SCW owns no dams in its customer service areas. The following table provides, in greater detail, selected water utility plant of SCW for each of its water ratemaking districts:

District	Pumps		Distribution Facilities				Reservoirs	
	Well	Booster	Mains	Meters	Services	Hydrants	Tanks	Capacity
Arden Cordova	27	17	476,694	3,392	8,452	1,186	3	4,000
Barstow	24	37	873,447	13,734	10,784	1,013	13	8,025
Bay Point	3	14	161,504	5,295	3,465	341	7	4,046
Calipatria	0	8	139,180	1,200	1,664	84	1	150
Claremont	28	35	721,021	14,139	11,184	1,176	13	16,061
Clearlake	0	13	192,298	2,743	954	75	4	847
Desert	16	20	750,004	7,492	4,570	575	13	1,477
Los Osos	8	10	201,408	3,973	1,466	167	5	1,134
Metro	79	83	4,799,404	171,815	109,478	7,719	41	25,209
Ojai	5	12	234,319	5,168	3,436	348	4	1,490
Orange	33	38	2,202,610	66,503	41,712	4,534	16	11,755
San Dimas	11	38	1,491,515	34,485	8,096	879	16	10,149
San Gabriel	23	8	553,449	11,298	13,073	792	3	1,520
Santa Maria	30	24	961,541	22,367	7,648	775	9	3,173
Simi	2	23	503,632	14,522	10,138	873	8	6,250
Wrightwood	8	5	216,809	5,464	680	76	7	1,546
Total	297	385	14,478,835	383,590	236,800	20,613	163	96,832

Capacity is measured in thousands of gallons

#### MORTGAGE AND OTHER LIENS

As of December 31, 1999, Registrant had no mortgage debt outstanding, and its properties were free of any encumbrances or liens securing indebtedness.

#### ITEM 3 - LEGAL PROCEEDINGS

##### WATER QUALITY-RELATED LITIGATION

SCW is a defendant in eleven lawsuits involving claims pertaining to water quality. Nine of the lawsuits involve customer service areas located in Los Angeles county in the southern portion of the State of California; two of the lawsuits involve a customer service area located in Sacramento county in northern California. 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*, held that the CPUC had pre-emptive jurisdiction over regulated public utilities and ordered dismissal of a series of lawsuits pertaining to water quality filed against water utilities, including SCW. Seven out of eleven 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. The Supreme Court has accepted the petition. Management can not predict whether the plaintiffs will be successful in the appeal.

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. On August 31, 1998, the judge assigned to the Allen Matter, acting on the Court's own motion, issued a stay of all proceedings in the Allen matter pending the outcome of the CPUC's Order Instituting Investigation (OII) proceeding. The plaintiffs petitioned the Third District Court of Appeal for a Writ of Mandamus to overrule the stay. The Court denied the petition. Plaintiff's then petitioned the California Supreme Court for relief from the Appellate Court's ruling. The California Supreme Court denied plaintiff's petition. Thus the stay in the Allen Matter remains in effect.

In March 1998, SCW was named a defendant in the matter of Daphne Adams, et al. v. Aerojet General, et al. (Case No. 11) which was filed in Sacramento Superior Court (the Adams Matter). The complaint makes claims based on negligence, strict liability, trespass, public nuisance, private nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, violation of California Business and Professions Code section 17200 et seq., intentional infliction of emotional distress, intentional spoilage of evidence, negligent destruction of evidence needed for prospective civil litigation, wrongful death and medical monitoring. 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. On August 31, 1998, the judge assigned to the Adams Matter, acting on the Court's own motion, issued a stay of all proceedings in the Adams matter pending the outcome of the CPUC's OII proceeding. The plaintiff's petitioned the Third District Court of Appeal for a Writ of Mandamus to overrule the stay. The Court denied the petition. Plaintiff's then petitioned the California Supreme Court for relief from the Appellate Court's ruling. The California Supreme Court denied plaintiff's petition. Thus the stay in the Adams Matter remains in effect.

In light of the breadth of 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. SCW is unable to predict whether the draft decision will be approved in part or in its entirety by the CPUC. SCW anticipates a final decision by the CPUC on this matter in 2000. See Note 8 to the Notes to Financial Statements.

#### OTHER LITIGATION

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

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

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

### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

##### (a) MARKET INFORMATION RELATING TO COMMON SHARES -

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

## Stock Prices

	High	Low
1999		
First Quarter	\$ 30	\$ 23 9/16
Second Quarter	29 1/4	22 3/16
Third Quarter	37 1/8	28 3/8
Fourth Quarter	39 3/4	31 3/4
1998		
First Quarter	\$ 26	\$ 23 1/16
Second Quarter	27 1/8	21 1/8
Third Quarter	27	23 1/4
Fourth Quarter	29 1/4	24 7/8

All of the Common Shares of Southern California Water Company and American States Utility Services are owned by American States Water Company. Hence, there is no market for the Common Shares of either entity.

## (b) APPROXIMATE NUMBER OF HOLDERS OF COMMON SHARES -

As of March 6, 2000, there were 3,519 holders of record of Common Shares of American States Water Company. All of the Common Shares of Southern California Water Company are owned by American States Water Company.

## (c) FREQUENCY AND AMOUNT OF ANY DIVIDENDS DECLARED AND DIVIDEND RESTRICTIONS

For the last three years, Registrant has paid dividends on its Common Shares on March 1, June 1, September 1 and December 1. The following table lists the amount of dividends paid on Common Shares of American States Water Company for the last two years:

	1999	1998
First Quarter	\$ 0.32	\$ 0.315
Second Quarter	0.32	0.315
Third Quarter	0.32	0.315
Fourth Quarter	0.32	0.315
Total	\$ 1.28	\$ 1.260

Registrant is not subject to any contractual restriction on its ability to pay dividends.

## ITEM 6. SELECTED FINANCIAL DATA

	1999	1998	1997	1996	1995
	-----	-----	-----	-----	-----
	( in thousand, except per share amounts)				
<b>INCOME STATEMENT INFORMATION</b>					
Total Operating Revenues	\$173,421	\$148,060	\$153,755	\$151,529	\$129,813
Total Operating Expenses	144,907	122,999	130,297	128,100	108,425
Operating Income	28,514	25,061	23,458	23,429	21,388
Other Income	532	769	758	531	336
Interest Charges	12,945	11,207	10,157	10,500	9,559
Net Income	16,101	14,623	14,059	13,460	12,165
Preferred Dividends	88	90	92	94	96
Earnings Available for Common Shareholders	16,013	14,533	13,967	13,366	12,069
Basic Earnings per Common Share	\$ 1.79	\$ 1.62	\$ 1.56	\$ 1.69	\$ 1.54
Dividends Declared per Common Shares	\$ 1.28	\$ 1.26	\$ 1.25	\$ 1.23	\$ 1.21
Average Shares Outstanding	8,958	8,958	8,957	7,891	7,845
<b>BALANCE SHEET INFORMATION</b>					
Total Assets	\$533,181	\$484,671	\$457,074	\$430,922	\$406,255
Common Shareholders' Equity	158,846	154,299	151,053	146,766	121,576
Long-Term Debt	167,363	120,809	115,286	107,190	107,455
Preferred Shares-Not subject to Mandatory	1,600	1,600	1,600	1,600	1,600
Preferred Shares-Mandatory Redemption	360	400	440	480	520
Total Capitalization	328,169	\$277,108	\$268,379	\$256,036	\$231,151
Book Value per Common Share	\$ 17.73	\$ 17.23	\$ 16.86	\$ 16.52	\$ 15.50
<b>OTHER INFORMATION</b>					
Ratio of Earnings to Fixed Charges	3.27%	3.21%	3.35%	3.26%	3.19%
Ratio of Earnings to Total Fixed Charges	3.23%	3.17%	3.30%	3.21%	3.14%
Return on Average Common Equity	10.2%	9.6%	9.5%	10.7%	10.3%

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Unless specifically noted, the following discussion and analysis provides information on AWR's consolidated operations and assets. There are no material differences between the consolidated operations and assets of AWR and the operations and assets of SCW.

## FORWARD-LOOKING INFORMATION

Certain matters discussed in this report (including the documents incorporated herein by reference) are forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as Registrant "believes," "anticipates," "expects" or words of similar import. Similarly, statements that describe Registrant's future plans, objectives, estimates or goals are also forward-looking statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rates, water quality and other regulatory matters, adequacy of water supplies, 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; future climatic conditions; legislative, regulatory and other circumstances affecting anticipated revenues and costs.

## RESULTS OF OPERATIONS

### YEARS ENDED DECEMBER 31, 1999 AND 1998

Basic earnings per Common Share in 1999 increased by 10.5% to \$1.79 per share as compared to \$1.62 per share for the comparable period of 1998. The increase in the recorded results primarily reflects higher revenues at the SCW unit during 1999 as is more fully discussed below.

Water operating revenues increased by 18.5% in 1999 to \$159.7 million from the \$134.8 million reported in 1998. Water sales volumes in 1999 were 9.0% higher than 1998 due primarily to the much drier and warmer weather conditions throughout Southern California in 1999 than in 1998. Additional increases in revenues were due to the general rate increases in six of Registrant's customer service areas effective January 1, 1999, which were applicable to 65% of SCW's water customers.

Electric operating revenues of \$13.3 million were 1.0% higher in 1999 as compared to 1998 due to a 2.7% increase in kilowatt-hour sales, primarily by industrial power users. The sales increase was partially offset by the lower billing rates of industrial customers relative to residential customers.

Other revenues increased from \$65,000 to \$390,000 in 1999 due to increased management fees resulting from new ASUS service contracts established in the year and increased activities with existing contracts.

Purchased water costs in 1999 increased to \$36.1 million as compared to \$30.8 million in 1998 due to a 12.1% increase in volumes purchased. The increase also reflects reduced reimbursements in 1999 from potentially responsible parties related to groundwater contamination in SCW's Culver City customer service area of approximately \$570,000, compared with reimbursements of \$1.7 million in 1998. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation - Environmental Matters - Matters Relating to Culver City System.

Costs of power purchased for pumping increased by 5.5% to \$7.4 million in 1999 chiefly as a result of an increase in pumped groundwater in SCW's water supply mix due to increased sales volumes.

Costs of power purchased for resale in 1999 increased by 42.0% to \$7.1 million from the \$5.0 million recorded in 1998 due primarily to additional energy demand charges from the energy supplier serving SCW's Bear Valley Electric Service unit in 1999. As described below, most of this increase has been included in the supply balancing account and that Registrant will seek to recover these in future rate increases.

Groundwater production assessments decreased by 5.3% to \$7.2 million in 1999 from \$7.6 million in 1998 due to reduced quantity rates in SCW's Metropolitan and San Dimas customer service areas.

A positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. Conversely, a negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. In 1999, recovery of previously under-collected supply costs was lower than 1998 due to the previously discussed increase in energy demand charges, the effect of which 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 balancing account mechanism insulates earnings from changes in the unit cost of supply costs which are outside of the immediate control of Registrant. However, the balancing account is not designed to insulate earnings against changes in the actual supply mix as compared to that mix authorized for recovery in rates. In 1999, SCW's overall supply mix improved favorably over that mix authorized in rates resulting in additional income. There is no assurance that the favorable mix can be sustained in future periods since actual results are affected by availability and quality of water, both purchased and produced from SCW's wells. See the section entitled "Water Supply."

Other operating expenses increased by 7.8% from the \$14.5 million recorded in 1998 due to increased costs for water treatment, and higher uncollectible provisions as a result of increased revenues.

Administrative and general expenses increased by 30.0% to \$28.6 million in 1999 from the \$22.0 million recorded in 1998. The increase is due to costs associated with various acquisition projects, increased employee benefit costs, and additional amounts reserved for certain legal proceedings.

In 1999, maintenance expense increased to the \$9.8 million level compared to the recorded \$7.3 million in 1998 due principally to increased maintenance on Registrant's water supply sources, and costs incurred on main replacements. The wet weather conditions during the first part of 1998 also hampered planned maintenance activities, thereby reducing maintenance expense in 1998.

Depreciation expense in 1999 increased by 8.9% to \$13.7 million reflecting the effects of recording approximately \$38.2 million in net plant additions during 1998, depreciation on which began in 1999.

Taxes on income increased by approximately 31.7% to \$13.3 million in 1999 as compared to the \$10.1 million in 1998 due to a 24.5% increase in pre-tax income and a higher effective tax rate in 1999 resulting from the turn-around of depreciation related temporary differences, the benefits of which were previously flowed-through for ratemaking purposes.

Property and other taxes increased by 7.2% in 1999 to \$6.6 million due primarily to increased franchise fees resulting from higher revenues, and increased payroll taxes from higher wages and additional personnel.

Other income decreased by 30.8% in 1999 due primarily to the flow-through of tax benefits related to refinancing of long-term debt in December 1998 for which there were no similar benefits in 1999.

Interest expense increased by 15.5% to \$12.9 million primarily due to the issuance of \$40 million in long-term debt in January 1999, partially offset by the retirement of \$10 million of 10.10% Notes in December 1998.

#### YEARS ENDED DECEMBER 31, 1998 AND 1997

Basic earnings per Common Share in 1998 increased by 3.8 % to \$1.62 per share as compared to \$1.56 per share in 1997. Although wet weather significantly impacted revenues in 1998, lower supply costs and modest increases in other operating expenses partially offset the decline in revenues.

Water operating revenues decreased by 4.3% in 1998 to \$134.9 million from the \$141.0 million reported in 1997. Water sales volumes in 1998 were 9.9% lower than 1997 due to extremely wet weather during the first half of the year. The decrease in sales was partially offset by rate increases effective during 1998.

Electric operating revenues of \$13.2 million were 3.4% higher in 1998 as compared to 1997 due to the impact of a general rate increase effective January 1998, as well as a 2.0% increase in kilowatt-hour sales.

Purchased water costs decreased in 1998 to \$30.8 million as compared to \$38.3 million in 1997 due to a 20.8% decrease in volumes purchased and refunds received from Registrant's wholesale water supplier during 1998 of approximately \$1.4 million. Refunds of \$2.0 million were received in 1997.

Costs of power purchased for pumping decreased by 7.2% to \$7.0 million in 1998 chiefly as a result of reduced energy costs from Registrant's suppliers.

Costs of power purchased for resale in 1998 decreased by 3.4% to \$5.0 million from the \$5.2 million recorded in 1997 due to reduced costs from Registrant's energy providers offset by the effects of increased kilowatt-hour sales volumes recorded during the year.

Groundwater production assessments increased by 10.5% to \$7.6 million in 1998 from \$6.8 million in 1997 due to the increased amounts of pumped water in Registrant's supply mix as well as additional assessments associated with increased pumping in Registrant's Metropolitan and Orange County customer service areas.

A positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. Conversely, a negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. In 1998, recovery of previously under-collected supply costs was lower than 1997 due to the expiration, in January 1998, of a surcharge designed to recover those costs. The new rates, effective January 1999, increased collection of these under-collected costs. The balancing account mechanism insulates earnings from changes in the unit cost of supply costs which are outside of the immediate control of Registrant. However, the balancing account is not designed to insulate earnings against changes in supply mix, as occurred during the first eight months of 1997.

Other operating expenses increased by 10.6% from the \$13.1 million recorded in 1997 due to employee time charged to this category. Reversals in 1997 of costs associated with recovery of water quality expenditures through the CPUC's memorandum account mechanism also contributed to the increase. There were no such reversals of equal magnitude in 1998.

Administrative and general expenses decreased slightly by 0.7% to \$22.0 million in 1998 from the \$22.1 million recorded in 1997. The decrease is due to stability in costs associated with health insurance, post-retirement medical benefits, pension and 401(k) plan costs and to a reduction of time charged by employees to this category.

In 1998, maintenance expense remained at approximately the \$7.3 million level recorded in 1997 due principally to the wet weather conditions during the first part of 1998 that hampered planned maintenance activity.

Depreciation expense in 1998 increased by 14.5% to \$12.5 million reflecting the effects of recording approximately \$38 million in net plant additions during 1997, depreciation on which began in 1998. In addition, amortization of start-up and organizational costs associated with the formation of AWR is reflected in 1998 and there were no similar amortization costs in 1997.

Taxes on income increased by approximately 3.1% to \$10.1 million in 1998 as compared to the \$9.8 million in 1997 due to a 5.7% increase in operating income partially offset by a lower effective tax rate.

Property and other taxes decreased by 2.5% in 1998 to \$6.1 million due primarily to reduced franchise tax payments directly attributable to reduced revenues.

Other income increased by 1.5% in 1998 due principally to the flow-through of tax benefits related to refinancing of long-term debt which was partially offset by an increase in reserves against costs associated with a non-regulated joint venture.

Interest expense increased by 10.3% to \$11.2 million primarily due to increased short-term bank borrowing and the issuance of \$15 million in long-term debt in March 1998.

#### LIQUIDITY AND CAPITAL RESOURCES

AWR funds its operating expenses, dividends on its outstanding Common and Preferred Shares, and makes its mandatory sinking fund payments, principally through dividends from SCW. AWR has filed a Registration Statement with the Securities and Exchange Commission (SEC) for issuance, from time to time, of up to \$60 million in Common Shares, Preferred Shares and/or debt securities. The proceeds will be used primarily for investment in its subsidiaries. No securities had been issued under this Registration Statement as of December 31, 1999.

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 December 31, 1999, of which a total of \$21 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. In January 1999, SCW issued \$40 million of long-term debt pursuant to this Registration Statement, leaving \$20 million remaining for issuance at a later date. The funds were used primarily to repay short-term bank borrowings, after which capital expenditures were funded.

Registrant has no derivative financial instruments, financial instruments with significant off-balance sheet risks or financial instruments with concentrations of credit risk.

#### CONSTRUCTION PROGRAM

A program for water pipeline replacement is on-going throughout the 22 customer service areas, based on priority of leaks detected, fire protection enhancements and reflection of the underlying replacement schedule. In addition, general upgrades in SCW's water supply facilities are anticipated to be on-going. SCW's board of directors has approved anticipated net capital expenditures of \$55.4 million in 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.

## 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. The following table lists information on estimated annual rate changes during 1999, 1998 and 1997.

Year	(\$ in 000's) Supply Cost Offset	Balancing Account Amortization	General and Step Increases	Advice Letters	Total
1999	\$23	\$1,349	\$15,175	\$657	\$17,204
1998	\$786	(\$2,852)	\$3,590	\$713	\$2,237
1997	\$183	\$64	\$1,332	(\$126)	\$1,453

New water rates for six of SCW's customer service areas and recovery of costs associated with SCW's general office functions were implemented in January, 1999. Step increases in rates for Arden-Cordova, Bay Point and Los Osos CSAs were also effective in January, 1999.

Applications to increase water rates were filed for four water ratemaking districts in SCW's Region III in March 1999. A draft decision has been issued by the Administrative Law Judge assigned to this matter that supports the settlement on all issues reached between SCW and the CPUC Staff. SCW has also filed an application with the CPUC to combine tariff schedules into regional rates for the customer service areas that make up SCW's Region III. The Administrative Law Judge assigned to this matter has issued a draft decision that supports SCW's application. A final decision from the CPUC on both issues is anticipated in the second quarter of 2000.

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. Attrition increases for Arden-Cordova and Bay Point CSAs were also in effect beginning January, 2000.

A Notice of Intent 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 February 2000. The application will be submitted by end of March, 2000. The new rates, if authorized in total or in part by the CPUC, would be effective January 1, 2001.

An advice letter was filed with the CPUC on March 1, 2000 seeking recovery of capital expenditures associated with Y2K readiness, not already included in Registrant's water rates. See Note 13 to the Notes to Financial Statements.

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 through contributions from developers on a per-lot or other basis, or the sale of its 500 acre-foot entitlement in SWP. See Note 8 to the Notes to Financial Statements.

#### 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. The long-term ESWTR, in any of the forms currently proposed, would apply to each of SCW's five surface water treatment plants and is expected to be promulgated by November 2000. However, because it is impossible to predict the version of the ESWTR that will be promulgated, Registrant is unable to predict what additional costs, if any, will be incurred to comply with the ESWTR.

### Regulation of Disinfection/Disinfection By-Products

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

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

### Ground Water Rule

By Spring 2000, the EPA is scheduled to propose regulations requiring disinfection of certain groundwater systems and provide guidance on determining which systems must provide disinfection facilities. The EPA may utilize the cost/benefit analysis provided in the 1996 SDWA amendments to establish such regulations. It is anticipated that the regulations will apply to several of SCW's systems using groundwater supplies. While no assurance can be given as to the nature and cost of any additional compliance measures, if any, Registrant does not believe that such regulations will impose significant compliance costs, since SCW already currently engages in disinfection of its groundwater systems.

### Regulation of Radon and Arsenic

Registrant 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. This proposed arsenic rule is expected to be released in March or April of 2000, with a 60-day comment period. It is anticipated that EPA will propose 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 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 picoCuries per liter based on the findings and has also established an alternative MCL of 4000 picoCuries per liter, based upon potential mitigation measures for overall radon reduction. The final rule will be effective in August, 2000. The Registrant is currently conducting studies to determine the best treatment for affected wells.

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

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

#### Fluoridation of Water Supplies

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

#### Matters Relating to Arden-Cordova System

In January, 1997, SCW was notified that ammonium perchlorate in amounts above the state-determined action level had been detected in three of its 27 wells serving its Arden-Cordova system. Aerojet-General 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. Each of the wells has been removed from service. Another well was also been removed from service in end of 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.

SCW and Aerojet-General Corp. are in negotiations on other matters related to procedures to address cleanup of the contaminated wells, costs associated with the cleanup, increased costs of purchased water as compared to pumped sources and costs associated with developing new sources of groundwater supply. SCW and Aerojet-General Corp. are attempting to negotiate an agreement on these matters. As of December 31, 1999, Aerojet-General Corp has 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 destroying 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. Registrant is unable to predict what actions, if any, the CRWQCB or Aerojet General Corp. will take in response to the lawsuits.

#### Matters Relating to Culver City System

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

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 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. 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 and a conditional termination from one of the responsible parties was received in October, 1999. SCW and such parties are currently in the process of negotiation. No assurances can be given that current or future negotiations will result in complete restoration of SCW's water rights or that continued reimbursement of SCW's costs will be forthcoming.

#### Bear Valley Electric

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

#### WATER SUPPLY

During 1999, Registrant supplied a total of 195,886 acre feet of water. Of this amount, approximately 58.2% came from pumped sources and 40.2% was purchased from others, principally the Metropolitan Water District of Southern California (MWD). The remaining amount was supplied by the Bureau of Reclamation (the Bureau) under a no-cost contract. During 1998, Registrant supplied 179,927 acre feet of water, 60.7% of which came from pumped sources, 39.0% was purchased and the remainder was supplied by 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 by changes in meteorological conditions. New research data released in January 2000 show the Pacific Ocean may be undergoing a dramatic climate shift, known as the Pacific Decadal Oscillation, that could alter global weather patterns and perhaps lead Southern California into decades of drier than normal weather. The changes signal that the Pacific is shifting to a "cool phase" could last for decades, bring far more rain than usual to the Pacific Northwest and less to Southland.

Water sales volumes have been impacted during the last two years by the El Nino/La Nina Southern Oscillation phenomena. El Nino brings substantial rainfall to Southern California and the opposite, La Nina, often means diminished rainfall. During the '80s and '90s, El Nino increased precipitation as much as 250% of normal for some Southern California Water Company service areas, while La Nina conditions decreased rain levels 50% to 30% of normal.

In 1999, after the 1997-1998 El Nino heavy rain season, La Nina moved rainfall to the North and substantially reduced rainfall in SCW's service areas with some systems experiencing less than 32% of normal rainfall.

In spite of the anticipated La Nina conditions, the 2000 water year supply outlook remains adequate. As of January 2000, California reservoirs stood at 125% of average. This positive outlook is due to the fact that reservoirs are still holding some of the El Nino surplus and groundwater levels are usually not diminished by a single year of below normal precipitation. Although overall groundwater conditions remain at adequate levels, 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.

#### BUSINESS SEGMENTS

AWR currently has two principal business units: water service and electric distribution utility operations conducted through its SCW subsidiary, and its non-regulated activities through its ASUS subsidiary. All activities of Registrant currently are geographically located within the State of California, except for one contract for providing customer service and billing services to a utility located in the state of Arizona. SCW is a regulated utility which operates both water and electric systems. On a stand alone basis, AWR has no material assets other than its investments in its subsidiaries. See Note 11 to the Notes to Financial Statements.

#### 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. Chaparral City Water Company was purchased from MCO Properties Inc., a wholly-owned subsidiary of MAXXAM Inc. This marks the first acquisition outside of California for Registrant. The sale of Chaparral City Water Company requires notification to the Arizona Corporation Commission and other conditions customary

in transactions of this type. The approval of Registrant's shareholders is not required. It is anticipated that the transaction will close within one year.

#### 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's general process for addressing the Y2K issue was (i) to inventory all systems that may have a potential Y2K impact, (ii) to determine the materiality of these non-Y2K ready systems, (iii) to replace and test, correct and test, or prepare for the failure of material items that have been determined to be non-Y2K ready, and (iv) to prepare contingency plans, which included, among other things, increased staffing during critical periods, manual back-up for automated systems and the use of portable generators capable of providing power during a black-out.

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 loss of utility services and disruption of water supplies.

Costs incurred to address Y2K issues are estimated to be \$7.5 million. Registrant has incurred \$4.8 million in costs associated with Y2K readiness at end of January 2000, \$4.0 million of which is in capital investments. On March 1, 2000, Registrant filed an advice letter with the CPUC for recovery of Y2K related costs. Registrant believes that generally these capital expenditures as well as the remaining Y2K-related investments will be recovered through rates, but can give no assurance that the CPUC will authorize recovery of all or some of these costs. See Note 13 to the Notes to Financial Statements.

#### 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 recently been sued in eleven water-quality related lawsuits:

- a suit filed on April 24, 1997 alleging personal injury and property damage as a result of the sale of water from wells located in an area of the San Gabriel Valley that has been designated a federal superfund site
- a suit filed on July 29, 1997 alleging personal injury and property damage as a result of the sale of water; few of our systems are located in the geographical area covered by this suit
- 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 sale of 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 sale of 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 sale of 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 sale of 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 sale of water from wells located in an area of the San Gabriel Valley that has been designated a superfund site
- a suit filed in July 22, 1999 alleging personal injury and property damage as a result of the sale of water from wells located in an area of the San Gabriel Valley that has been designated a superfund site

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, one group of plaintiffs appealed the decision to the California Supreme Court which has accepted the petition. Management can not 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 following 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 December 31, 1999, Registrant had incurred \$860,120 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:

- applications filed by SCW to increase rates in 4 of its 16 rate-making jurisdictions; a final decision is not expected until second quarter of 2000 although a tentative settlement has been worked out
- an application filed to consolidate the rate-making jurisdictions located in SCW's Region III area into a single tariff
- the OII
- new guidelines under consideration by the CPUC for the acquisition and merger of water utilities and for privatization transactions

## Adequacy of Water Supplies

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

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

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

Water shortages could be caused by 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. We are currently negotiating with Aerojet General Corporation regarding costs associated with the cleanup of the groundwater supply for our Arden-Cordova System and for the increased costs of purchasing water and developing new sources of groundwater supply. We are also negotiating with two participants on matters relating to the clean-up and purchase of replacement water in the Charnock Basin located in the cities of Santa Monica and Culver City. These two potentially responsible parties have previously reimbursed us for replacement water and certain legal and consulting expenses. The Charnock Basin is in SCW's service territory.

## ACCOUNTING STANDARDS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes a new model for accounting for derivative and hedging activities, and supersedes and amends a number of existing standards. Adoption of this statement, with an extended effective date for fiscal years beginning after December 15, 1999, will not have a significant impact on financial position or results of operation.

## ITEM 7A. 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.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## American States Water Company

Consolidated Balance Sheets - December 31, 1999 and 1998

Consolidated Statements of Capitalization - December 31, 1999 and 1998

Consolidated Statements of Income - for the years ended December 31, 1999, 1998 and 1997

Consolidated Statements of Changes in Common Shareholders' Equity - for the years ended December 31, 1999, 1998 and 1997

Consolidated Statements of Cash Flows - for the years ended December 31, 1999, 1998 and 1997

## Southern California Water Company

Balance Sheets - December 31, 1999 and 1998

Statements of Capitalization - December 31, 1999 and 1998

Statements of Income - for the years ended December 31, 1999, 1998 and 1997

Statements of Changes in Common Shareholders' Equity - for the years ended December 31, 1999, 1998 and 1997

Statements of Cash Flows - for the years ended December 31, 1999, 1998 and 1997

## Notes to Financial Statements

## Report of Independent Public Accountants

## AMERICAN STATES WATER COMPANY

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	----- 1999	1998 -----
	(in thousands)	
ASSETS		
UTILITY PLANT, AT COST		
Water	\$ 532,007	\$ 482,989
Electric	36,349	35,171
	-----	-----
Less - Accumulated depreciation	568,356 (151,733)	518,160 (138,423)
	-----	-----
Construction work in progress	416,623 32,972	379,737 35,016
	-----	-----
Net utility plant	449,595	414,753
	-----	-----
OTHER PROPERTY AND INVESTMENTS	10,583	1,077
CURRENT ASSETS		
Cash and cash equivalents	2,189	620
Accounts receivable-Customers, less reserves of \$487 in 1999; \$403 in 1998	10,135	7,626
Other account receivable	4,347	5,301
Unbilled revenue	11,345	9,303
Materials and supplies, at average cost	1,153	994
Supply cost balancing accounts	4,774	4,300
Prepayments	4,851	5,988
Accumulated deferred income taxes - net	5,546	5,156
	-----	-----
Total current assets	44,340	39,288
	-----	-----
DEFERRED CHARGES		
Unamortized debt expense and redemption premium	6,811	6,635
Regulatory tax-related assets	19,941	21,506
Other	1,911	1,412
	-----	-----
Total deferred charges	28,663	29,553
	-----	-----
TOTAL ASSETS	\$ 533,181	\$ 484,671
	=====	=====

The accompanying notes are an integral part of these financial statements

## AMERICAN STATES WATER COMPANY

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	----- 1999	1998 -----
	(in thousands)	
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION</b>		
Common shareholders' equity	\$158,846	\$154,299
Preferred Shares	1,600	1,600
Preferred Shares - mandatory redemption	360	400
Long-term debt	167,363	120,809
	-----	-----
Total capitalization	328,169	277,108
	-----	-----
<b>CURRENT LIABILITIES</b>		
Notes payable to banks	21,000	38,000
Long-term debt and Preferred Shares - current	340	260
Accounts payable	13,777	10,218
Taxes payable	5,432	5,900
Accrued interest	1,584	1,405
Other	12,832	7,985
	-----	-----
Total current liabilities	54,965	63,768
	-----	-----
<b>OTHER CREDITS</b>		
Advances for construction	57,485	54,743
Contributions in aid of construction	38,895	36,530
Accumulated deferred income taxes - net	48,302	46,902
Unamortized investment tax credits	3,064	3,155
Regulatory tax-related liability	1,861	1,906
Other	440	559
	-----	-----
Total other credits	150,047	143,795
	=====	=====
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$533,181</b>	<b>\$484,671</b>
	=====	=====

The accompanying notes are an integral part of these financial statements

## AMERICAN STATES WATER COMPANY

## CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31,	
	----- 1999	----- 1998
	----- (in thousands)	
<b>COMMON SHAREHOLDERS' EQUITY:</b>		
Common Shares, \$2.50 stated value--		
Authorized 31,071,408 shares		
Outstanding 8,957,671 in 1999 and 1998	\$ 22,394	\$ 22,394
Additional paid-in capital	74,937	74,937
Earnings reinvested in the business	61,515	56,968
	-----	-----
	158,846	154,299
	-----	-----
<b>PREFERRED SHARES: \$25 PAR VALUE</b>		
Authorized 64,000 shares		
Outstanding 32,000 shares, 4% Series	800	800
Outstanding 32,000 shares, 4-1/4% Series	800	800
	-----	-----
	1,600	1,600
	-----	-----
<b>PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION</b>		
Requirements: \$25 par value		
Authorized and outstanding 16,000 shares in 1999 and 17,600 shares in 1998, 5% Series	400	440
Less: Preferred Shares to be redeemed within one year	(40)	(40)
	-----	-----
	360	400
	-----	-----
<b>LONG-TERM DEBT</b>		
5.82% notes due 2003	12,500	12,500
6.64% notes due 2013	1,100	1,100
6.80% notes due 2013	2,000	2,000
8.50% fixed rate obligation due 2013	1,798	1,882
Variable rate obligation due 2014	6,000	6,000
Variable rate obligation due 2018	650	630
6.87% notes due 2023	5,000	5,000
7.00% notes due 2023	10,000	10,000
7.55% notes due 2025	8,000	8,000
7.65% notes due 2025	22,000	22,000
5.50% notes due 2026	8,000	8,000
6.81% notes due 2028	15,000	15,000
6.59% notes due 2029	40,000	--
9.56% notes due 2031	28,000	28,000
State Water Project due 2035	7,028	--
Other	587	917
	-----	-----
	167,663	121,029
Less: Current maturities	(300)	(220)
	-----	-----
	167,363	120,809
	=====	=====
<b>TOTAL CAPITALIZATION</b>	<b>\$ 328,169</b>	<b>\$ 277,108</b>
	=====	=====

The accompanying notes are an integral part of these financial statements

## AMERICAN STATES WATER COMPANY

## CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31,		
	1999	1998	1997
	(in thousands, except per share amounts)		
<b>OPERATING REVENUES</b>			
Water	\$ 159,693	\$ 134,794	\$ 140,988
Electric	13,338	13,201	12,767
Other	390	65	--
Total operating revenues	173,421	148,060	153,755
<b>OPERATING EXPENSES</b>			
Water purchased	36,143	30,833	38,318
Power purchased for resale	7,119	5,013	5,188
Power purchased for pumping	7,394	7,009	7,554
Groundwater production assessment	7,170	7,567	6,847
Supply cost balancing accounts	(473)	28	2,813
Other operating expenses	15,594	14,459	13,074
Administrative and general expenses	28,600	21,987	22,138
Depreciation	13,650	12,538	10,952
Maintenance	9,799	7,311	7,301
Taxes on income	13,345	10,130	9,830
Property and other taxes	6,566	6,124	6,282
Total operating expenses	144,907	122,999	130,297
<b>OPERATING INCOME</b>	28,514	25,061	23,458
<b>OTHER INCOME</b>			
Total other income - net	532	769	758
Income before interest charges	29,046	25,830	24,216
<b>INTEREST CHARGES</b>			
Interest on long-term debt	11,294	9,612	8,821
Other interest and amortization of debt expense	1,651	1,595	1,336
Total interest charges	12,945	11,207	10,157
<b>NET INCOME</b>	16,101	14,623	14,059
Dividends on Preferred Shares	(88)	(90)	(92)
<b>EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS</b>	\$ 16,013	\$ 14,533	\$ 13,967
<b>BASIC EARNINGS PER COMMON SHARE</b>	\$ 1.79	\$ 1.62	\$ 1.56
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	8,958	8,958	8,957

The accompanying notes are an integral part of these financial statements

## AMERICAN STATES WATER COMPANY

## CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

	Common Shares		Additional Paid-in Capital	Earnings Reinvested in the Business
	Number of Shares	Amount		
	(in thousands)			
BALANCES AT DECEMBER 31, 1996	8,886	\$22,215	\$73,645	\$50,906
Add:				
Net Income				14,059
Issuance of Common Shares for public offering	72	179	1,292	
Deduct:				
Dividends on Preferred Shares				92
Dividends on Common Shares - \$1.245 per share				11,151
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 1997	8,958	\$22,394	\$74,937	\$53,722
Add:				
Net Income				14,623
Deduct:				
Dividends on Preferred Shares				90
Dividends on Common Shares - \$1.26 per share				11,287
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 1998	8,958	\$22,394	\$74,937	\$56,968
Add:				
Net Income				16,101
Deduct:				
Dividends on Preferred Shares				88
Dividends on Common Shares - \$1.28 per share				11,466
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 1999	8,958	\$22,394	\$74,937	\$61,515
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements

## AMERICAN STATES WATER COMPANY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	1999	1998	1997
	(in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 16,101	\$ 14,623	\$ 14,059
Adjustments for non-cash items:			
Depreciation and amortization	14,364	15,368	11,170
Deferred income taxes and investment tax credits	2,440	5,241	826
Other - net	1,066	1,394	873
Changes in assets and liabilities:			
Customer receivables	(1,555)	918	(673)
Supply cost balancing accounts	(474)	(14)	1,987
Accounts payable	3,559	(1,552)	(1,095)
Taxes payable	(468)	(3,215)	3,338
Other - net	3,977	438	341
Net cash provided	39,010	33,201	30,826
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Construction expenditures	(57,823)	(43,623)	(36,799)
Net cash used	(57,823)	(43,623)	(36,799)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Issuance of Common Shares	--	--	1,472
Issuance of long-term debt and lease obligations	47,028	15,000	8,000
Receipt of advances for and contributions in aid of construction	5,300	3,381	1,302
Refunds on advances for construction	(2,957)	(2,651)	(2,957)
Retirement or repayments of long-term debt and redemption of Preferred Shares - net	(435)	(9,488)	(198)
Net change in notes payable to banks	(17,000)	12,000	10,000
Common and preferred dividends paid	(11,554)	(11,386)	(11,243)
Net cash provided	20,384	6,856	6,376
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,569</b>	<b>(3,566)</b>	<b>403</b>
Cash and Cash Equivalents, Beginning of Year	620	4,186	3,783
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 2,189</b>	<b>\$ 620</b>	<b>\$ 4,186</b>
<b>TAXES AND INTEREST PAID:</b>			
Income taxes paid	\$ 12,137	\$ 5,430	\$ 6,338
Interest paid	11,834	11,391	9,451
<b>NON-CASH TRANSACTIONS:</b>			
Property installed by developers and conveyed to Company	\$ 4,096	\$ 1,797	\$ 2,082

The accompanying notes are an integral part of these financial statements

## SOUTHERN CALIFORNIA WATER COMPANY

## BALANCE SHEETS

	December 31,	
	1999	1998
	(in thousands)	
ASSETS		
UTILITY PLANT, AT COST		
Water	\$ 532,007	\$ 482,989
Electric	36,349	35,171
	568,356	518,160
Less - Accumulated depreciation	(151,733)	(138,423)
	416,623	379,737
Construction work in progress	32,972	35,016
Net utility plant	449,595	414,753
OTHER PROPERTY AND INVESTMENTS		
	10,233	763
CURRENT ASSETS		
Cash and cash equivalents	2,020	524
Accounts receivable-Customers, less reserves of \$487 in 1999; \$403 in 1998	10,135	7,498
Other	4,275	5,272
Intercompany receivable	--	104
Unbilled revenue	11,345	9,303
Materials and supplies, at average cost	1,153	994
Supply cost balancing accounts	4,774	4,300
Prepayments	4,851	5,988
Accumulated deferred income taxes - net	5,573	5,173
Total current assets	44,126	39,156
DEFERRED CHARGES		
Regulatory tax-related assets	19,941	21,506
Other	8,599	7,997
Total deferred charges	28,540	29,503
TOTAL ASSETS	\$ 532,494	\$ 484,175
	=====	=====

The accompanying notes are an integral part of these financial statements

## SOUTHERN CALIFORNIA WATER COMPANY

## BALANCE SHEETS

	December 31,	
	1999	1998
	(in thousands)	
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION</b>		
Common shareholders' equity	\$160,023	\$155,721
Preferred shares	--	--
Preferred shares - mandatory redemption	--	--
Long-term debt	167,363	120,809
Total capitalization	327,386	276,530
<b>CURRENT LIABILITIES</b>		
Notes payable to banks	21,000	38,000
Long-term debt and preferred shares - current	340	260
Accounts payable	13,615	10,054
Intercompany payable	4	--
Taxes payable	5,700	6,147
Accrued interest	1,584	1,405
Other	12,818	7,984
Total current liabilities	55,061	63,850
<b>OTHER CREDITS</b>		
Advances for construction	57,485	54,743
Contributions in aid of construction	38,895	36,531
Accumulated deferred income taxes - net	48,302	46,901
Unamortized investment tax credits	3,064	3,155
Regulatory tax-related liability	1,861	1,907
Other	440	558
Total other credits	150,047	143,795
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$532,494</b>	<b>\$484,175</b>

The accompanying notes are an integral part of these financial statements

## SOUTHERN CALIFORNIA WATER COMPANY

## STATEMENTS OF CAPITALIZATION

	December 31,	
	1999	1998
	(in thousands)	
COMMON SHAREHOLDERS' EQUITY:		
Common shares, no par value		
Outstanding 100 in 1998 and 1999	\$ 98,391	\$ 98,391
Additional paid-in capital	--	--
Earnings reinvested in the business	61,632	57,330
	-----	-----
	160,023	155,721
	-----	-----
LONG-TERM DEBT		
5.82% notes due 2003	12,500	12,500
6.64% notes due 2013	1,100	1,100
6.80% notes due 2013	2,000	2,000
8.50% fixed rate obligation due 2013	1,798	1,882
Variable rate obligation due 2014	6,000	6,000
Variable rate obligation due 2018	649	630
6.87% notes due 2023	5,000	5,000
7.00% notes due 2023	10,000	10,000
7.55% notes due 2025	8,000	8,000
7.65% notes due 2025	22,000	22,000
5.50% notes due 2026	8,000	8,000
6.81% notes due 2028	15,000	15,000
6.59% notes due 2029	40,000	--
9.56% notes due 2031	28,000	28,000
State Water Project due 2035	7,028	--
Other	588	917
	-----	-----
	167,663	121,029
Less: Current maturities	(300)	(220)
	-----	-----
	167,363	120,809
	=====	=====
TOTAL CAPITALIZATION	\$ 327,386	\$ 276,530
	=====	=====

The accompanying notes are an integral part of these financial statements

## SOUTHERN CALIFORNIA WATER COMPANY

## STATEMENTS OF INCOME

	For the years ended December 31,		
	1999	1998	1997
	-----		
	(\$ in thousands, except per share amounts)		
OPERATING REVENUES			
Water	\$ 159,693	\$ 134,794	\$ 140,988
Electric	13,338	13,201	12,767
	-----	-----	-----
Total operating revenues	173,031	147,995	153,755
	-----	-----	-----
OPERATING EXPENSES			
Water purchased	36,145	30,833	38,318
Power purchased for resale	7,119	5,013	5,188
Power purchased for pumping	7,394	7,009	7,554
Groundwater production assessment	7,170	7,567	6,847
Supply cost balancing accounts	(473)	28	2,813
Other operating expenses	15,475	14,434	13,074
Administrative and general expenses	28,077	21,884	22,138
Depreciation	13,516	12,270	10,952
Maintenance	9,794	7,311	7,301
Taxes on income	13,473	10,360	9,830
Property and other taxes	6,563	6,124	6,282
	-----	-----	-----
Total operating expenses	144,253	122,833	130,297
	-----	-----	-----
OPERATING INCOME	28,778	25,162	23,458
	-----	-----	-----
OTHER INCOME			
Total other income - net	509	1,231	758
	-----	-----	-----
Income before interest charges	29,287	26,393	24,216
	-----	-----	-----
INTEREST CHARGES			
Interest on long-term debt	11,294	9,612	8,821
Other interest and amortization of debt expense	1,651	1,595	1,336
	-----	-----	-----
Total interest charges	12,945	11,207	10,157
	-----	-----	-----
NET INCOME			
Dividends on Preferred Shares	--	(46)	(92)
	-----	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS	\$ 16,342	\$ 15,140	\$ 13,967
	-----	-----	-----
BASIC EARNINGS PER COMMON SHARE	\$ 163,420	\$ 151,400	\$ 139,670
	-----	-----	-----
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
	100	100	100

The accompanying notes are an integral part of these financial statements. All information has been adjusted to reflect formation of holding company in 1998.

## SOUTHERN CALIFORNIA WATER COMPANY

## STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

	Common Shares		Additional Paid-in Capital	Earnings Reinvested in the Business
	Number of Shares	Amount		
	-----			
				-----
	(in thousands)			
BALANCES AT DECEMBER 31, 1996	8,886	\$22,215	\$73,645	\$50,906
Add:				
Net Income				14,059
Issuance of Common Shares for public offering	72	179	1,292	
Deduct:				
Dividends on Preferred Shares				92
Dividends on Common Shares - \$1.245 per share				11,151
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 1997	8,958	\$22,394	\$74,937	\$53,722
Add:				
Transfer Preferred Shares & Investments			\$ 1,060	
Net Income				15,186
Deduct:				
Dividends on Preferred Shares				46
Dividends on Common Shares - \$.63 per share for 8,957,671 shares				5,643
Dividends on Common Shares - \$58,890 per share for 100 shares				5,889
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 1998	100	\$22,394	\$75,997	\$57,330
Add:				
Net Income				16,342
Deduct:				
Dividends on Preferred Shares				--
Dividends on Common Shares - \$30,900 per share				3,090
Dividends on Common Shares - \$30,500 per share				3,050
Dividends on Common Shares - \$29,000 per share				2,900
Dividends on Common Shares - \$30,000 per share				3,000
	=====	=====	=====	=====
BALANCES AT DECEMBER 31, 1999	100	\$22,394	\$75,997	\$61,632
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements

## SOUTHERN CALIFORNIA WATER COMPANY

## STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	1999	1998	1997
	(in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	16,342	15,185	\$ 14,059
Adjustments for non-cash items:			
Depreciation and amortization	14,229	15,100	11,170
Deferred income taxes and investment tax credits	2,430	5,224	826
Other - net	1,308	1,077	873
Changes in assets and liabilities:			
Customer receivables	(1,640)	1,046	(673)
Prepayments	(1,137)	660	(743)
Supply cost balancing accounts	(474)	(14)	1,987
Accounts payable	3,561	(1,716)	(1,095)
Taxes payable	(447)	(2,968)	3,338
Unbilled revenue	(2,042)	(197)	3,490
Accrued Interest	179	(463)	96
Other - net	7,074	362	(2,502)
Net cash provided	39,383	33,296	30,826
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Construction expenditures	(57,823)	(43,623)	(36,799)
Net cash used	(57,823)	(43,623)	(36,799)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Issuance of Common Shares	--	--	1,472
Issuance of long-term debt and lease obligations	47,028	15,000	8,000
Receipt of advances for and contributions in aid of construction	3,883	3,381	1,302
Refunds on advances for construction	(1,540)	(2,651)	(2,957)
Repayments of long-term debt and redemption of Preferred Shares - net	(395)	(9,488)	(198)
Net change in notes payable to banks	(17,000)	12,000	10,000
Common and preferred dividends paid	(12,040)	(11,577)	(11,243)
Net cash provided	19,936	6,665	6,376
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,496</b>	<b>(3,662)</b>	<b>403</b>
Cash and Cash Equivalents, Beginning of Year	524	4,186	3,783
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>2,020</b>	<b>524</b>	<b>4,186</b>
<b>TAXES AND INTEREST PAID:</b>			
Income taxes paid	\$ 12,241	\$ 5,430	\$ 6,338
Interest paid	11,834	11,391	9,451
<b>NON-CASH TRANSACTIONS:</b>			
Property installed by developers and conveyed to Company	\$ 4,096	\$ 1,797	\$ 2,082

The accompanying notes are an integral part of these financial statements

## NOTES TO FINANCIAL STATEMENTS

American States Water Company (AWR) is the parent company of Southern California Water Company (SCW) and American States Utility Services, Inc. (ASUS). SCW is a public utility engaged principally in the purchase, production, distribution and sale of water as well as in the distribution of electricity in several mountain communities. SCW is regulated by the California Public Utilities Commission (CPUC) as to its water and electric business including properties, rates, services, facilities and other matters. ASUS performs non-regulated, water related services and operations on a contract basis. The consolidated financial statements include the accounts of AWR, SCW and ASUS. Virtually all of AWR's assets and revenues are those of SCW.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of AWR and its wholly-owned subsidiaries, SCW and ASUS collectively referred to as Registrant. Inter-company transactions and balances have been eliminated.

The accounting records for SCW are maintained in accordance with the Uniform System of Accounts prescribed by the CPUC. The preparation of these financial statements required the use of certain estimates by management in determining Registrant's assets, liabilities, revenues and expenses.

Property and Depreciation: Registrant capitalizes, as utility plant, the cost of additions and replacements of retirement units. Such cost includes labor, material and certain indirect charges. Depreciation is computed on the straight-line, remaining-life basis. For the years 1999, 1998 and 1997 the aggregate provisions for depreciation approximated 2.91%, 2.79%, and 2.77% of the beginning of the year depreciable plant, respectively.

Interest: Interest is generally not capitalized for financial reporting purposes as such procedure is usually not followed for rate-making purposes.

Revenues: Revenues include amounts billed to customers and an amount of unbilled revenue representing amounts to be billed for usage from the last meter reading date to the end of the accounting period.

Basic Earnings Per Common Share: Basic Earnings per Common Share are based upon the weighted average number of Common Shares outstanding and net income after deducting preferred dividend requirements. There are no dilutive securities. Accordingly, diluted earnings per share is not calculated.

Supply Cost Balancing Accounts: As permitted by the CPUC, Registrant maintains water and electric supply cost balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Recoverability of such costs is recorded in income and charged to balancing accounts when such costs are incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments. Registrant accrues interest on its supply cost balancing accounts at the rate prevailing for 90-day commercial paper.

Debt Issue Expense and Redemption Premiums: Original debt issue expenses are amortized over the lives of the respective issues. Premiums paid on the early redemption of debt which is reacquired through refunding are deferred and amortized over the life of the debt issued to finance the refunding. The redemption premium on debt reacquired without refunding is amortized over the remaining period the debt would have been outstanding.



In 1998, the board of directors adopted a Shareholder Rights Plan (Rights Plan) and authorized a dividend distribution of one right (a Right) to purchase 1/1000th of Junior Participating Preferred Share for each outstanding Common Share. The Rights Plan became effective in September 1998 and will expire in September 2008. The Rights Plan is designed to provide shareholders' protection and to maximize shareholder value by encouraging a prospective acquirer to negotiate with the board.

Each Right represents a right to purchase 1/1000th of Junior Participating Preferred Share at the price of \$120, subject to adjustment (the Purchase Price). Each Junior Participating Preferred Share is entitled to receive a dividend equal to 1000 times any dividend paid on each Common Share and 100 votes per share in any shareholder election. The Rights become exercisable upon occurrence of a Distribution Date. A Distribution Date event occurs if (i) any person accumulates 15% of the then outstanding Common Shares, (ii) any person presents a tender offer which caused the person's ownership level to exceed 15% and the board determines the tender offer not to be fair to AWR's shareholders, or (iii) the board determines that a shareholder maintaining a 15% interest in the Common shares could have an adverse impact on AWR or could attempt to pressure AWR to repurchase the holder's shares at a premium.

Until the occurrence of a Distribution Date, each Right trades with the Common Share and is not separately transferable. When a Distribution Date occurs, AWR would distribute separately Rights Certificates to Common Shareholders and the Rights would subsequently trade separate from the Common Shares and each holder of a Right, other than the acquiring person whose Rights will thereafter be void, will have the right to receive upon exercise at its then current Purchase Price that number of Common Shares having a market value of two times the Purchase Price of the Right. If AWR merges into the acquiring person or enters into any transaction that unfairly favors the acquiring person or disfavors AWR's other shareholders, the Right becomes a right to purchase Common Shares of the acquiring person having market value of two times the Purchase Price.

The board of directors may determine that in certain circumstances a proposal which would cause a Distribution Date is in the best interest of AWR's shareholders. Therefore, the board of directors may, at its option, redeem the Rights at a redemption price of \$0.01 per Right.

#### NOTE 3 - COMPENSATING BALANCES AND BANK DEBT

At December 31, 1999, SCW maintained \$47 million in aggregate borrowing capacity with three commercial banks with no compensating balances required. Of this amount, \$21 million was outstanding at year-end. Loans can be obtained at the option of SCW and bear interest at rates based on floating prime borrowing rates or at money market rates.

Short-term borrowing activities for the last three years were as follows:

	December 31,		
	1999	1998	1997
	(in thousands, except percent)		
Balance Outstanding at December 31,	\$21,000	\$38,000	\$26,000
Interest Rate at December 31,	7.35%	5.86%	6.39%
Average Amount Outstanding	8,775	19,309	\$15,678
Weighted Average Annual Interest Rate	5.11%	6.78%	6.27%
Maximum Amount Outstanding	\$21,000	\$39,000	\$32,000

## NOTE 4 - LONG TERM DEBT

In March 1998, SCW sold the remaining \$15 million under its Series B Medium Term Note Program and in December 1998, SCW redeemed all of its outstanding 10.10% Notes. In January 1999, \$40 million of Series C Medium Term Notes were sold. The funds were used initially to repay short-term bank borrowings and, after that, to fund construction expenditures. Registrant has no mortgage debt, and leases and other similar financial arrangements are not material.

SCW has posted an Irrevocable Letter of Credit, which expires July 31, 2000, in the amount of \$646,631 as security for its self-insured workers' compensation plan. SCW has also provided an Irrevocable Letter of Credit, which expires November 14, 2000, in the amount of \$6,296,000 to a trustee with respect to the variable rate obligation issued by the Three Valleys Municipal Water District.

Annual maturities of all long-term debt, including capitalized leases, amount to \$303,356, \$231,559, \$246,528, \$262,036 and \$278,644 for the five years ending December 31, 2000 through 2004, respectively.

## NOTE 5 - TAXES ON INCOME

Registrant provides deferred income taxes for temporary differences under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109), for certain transactions which are recognized for income tax purposes in a period different from that in which they are reported in the financial statements. The most significant items are the tax effects of accelerated depreciation, the supply cost balancing accounts and advances for and contributions-in-aid-of-construction. SFAS No. 109 also requires that rate-regulated enterprises record deferred income taxes for temporary differences accorded flow-through treatment at the direction of a regulatory commission. The resulting deferred tax assets and liabilities are recorded at the expected cash flow to be reflected in future rates. Since the CPUC has consistently permitted the recovery of previously flowed-through tax effects, SCW has established regulatory liabilities and assets offsetting such deferred tax assets and liabilities.

Deferred investment tax credits are being amortized to other income ratably over the lives of the property giving rise to the credits.

The significant components of deferred tax assets and deferred tax liabilities, as reflected in the balance sheets, and the accumulated net deferred income tax liabilities at December 31, 1999 and 1998 were:

	December 31,	
	1999	1998
	(dollars in thousands)	
Deferred tax assets:		
Balancing accounts	\$ (175)	\$ 33
State tax effect	5,721	5,123
	-----	-----
	5,546	5,156
	-----	-----
Deferred tax liabilities		
Depreciation	(44,939)	(43,442)
Advances and contributions	15,862	16,694
Other property related	(10,007)	(11,488)
Other non-property related	(9,218)	(8,666)
	-----	-----
	(48,302)	(46,902)
	-----	-----
Accumulated deferred income taxes - net	\$(42,756)	\$(41,746)
	-----	-----

The current and deferred components of income tax expense are as follows:

	December 31,		
	1999	1998	1997
	(dollars in thousands)		
Current			
Federal	\$ 9,360	\$ 5,219	\$ 7,205
State	2,799	1,727	2,287
Total current tax expense	12,159	6,946	9,492
Deferred - Federal and State:			
Accelerated depreciation	3,405	3,319	2,996
Balancing accounts	(207)	6	(871)
Advances and contributions	--	--	(210)
California privilege year franchise tax	(970)	(544)	(617)
Other	(664)	(398)	(566)
Total deferred tax expense	1,564	2,383	732
Total income tax expense	13,723	9,329	10,224
Income taxes included in operating expenses	13,345	10,130	9,830
Income taxes included in other income and expenses - net	378	(801)	394
Total income tax expense	\$ 13,723	\$ 9,329	\$ 10,224

Additional information regarding taxes on income is set forth in the following table:

	December 31,		
	1999	1998	1997
	(dollars in thousands, except percent)		
Federal taxes on pre-tax income at statutory rates	\$ 10,438	\$ 8,470	\$ 8,451
Increase (decrease) in taxes resulting from:			
State income tax expense	2,605	1,654	1,864
Depreciation	1,184	944	853
Federal benefit of state taxes	(912)	(579)	(652)
Adjustments to prior years' provisions	433	(97)	(143)
Payment of premium on redemption	66	(813)	--
Other - net	(91)	(250)	(149)
Total income tax expense	\$ 13,723	\$ 9,329	\$ 10,224
Pre-tax income	\$ 29,824	\$ 23,952	\$ 24,145
Effective income tax rate	46.0%	38.9%	42.3%

#### NOTE 6 - EMPLOYEE BENEFIT PLANS

Registrant maintains a pension plan (the Plan) which provides eligible employees (those age 21 and older, with one year of service) monthly benefits upon retirement based on average salaries and length of service. The normal retirement benefit is equal to 2% of the five highest consecutive years average earnings multiplied by the number of years of credited service, up to a maximum of 40 years, reduced by a percentage of primary social security benefits. There is also an early retirement option. Annual contributions are made to the Plan which comply with the funding requirements of the Employee Retirement Income Security Act (ERISA). At December 31, 1999, Registrant had 713 participants in the Plan, 54 of these are employees covered by collective bargaining agreements, the earliest of which expires in 2001.

Registrant also provides all active employees medical, dental and vision care benefits through a medical insurance plan. Eligible employees who retired prior to age 65, and/or their spouses, were able to retain the benefits under the active plan until reaching age 65. Eligible employees upon reaching age 65,

and those employees retiring at or after age 65, and/or their spouses, receive coverage through a Medicare supplement insurance policy paid for by Registrant subject to an annual cap limit.

The CPUC has issued a decision which provides for the recovery in rates of tax-deductible contributions made to a separately trustee fund. In accordance with that decision, SCW established two separate trusts in 1995, one for those retirees who were subject to a collective bargaining agreement and another for all other retirees. Registrant's funding policy is to contribute annually an amount at least equal to the revenues authorized to be collected through rates for post-retirement benefit costs. Post-retirement benefit costs for 1993, 1994 and 1995 were estimated at a total of \$1.6 million and have been recorded as a regulatory asset for recovery over a 20 year period. The unamortized balance at December 31, 1999 was approximately \$610,000.

The following table sets forth the Plan's funded status and amounts recognized in Registrant's balance sheets and the components of net pension cost and accrued post-retirement liability at December 31, 1999 and 1998:

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
	(dollars in thousands)			
<b>CHANGE IN BENEFIT OBLIGATION:</b>				
Benefit Obligation at beginning of year	\$ 38,572	\$ 33,410	\$ 4,363	\$ 4,503
Service Cost	1,963	1,597	125	112
Interest Cost	2,538	2,278	305	283
Actuarial Loss/(Gain)	(6,255)	2,514	(171)	(368)
Benefits Paid	(1,305)	(1,227)	(191)	(167)
Benefit Obligation at end of year	\$ 35,513	\$ 38,572	\$ 4,431	\$ 4,363
<b>CHANGES IN PLAN ASSETS:</b>				
Fair Value of Plan Assets at beginning of year	\$ 39,541	\$ 33,433	\$ 1,442	\$ 1,104
Actual Return of Plan Assets	8,277	6,051	25	44
Employer Contributions	1,264	1,284	484	461
Benefits Paid	(1,305)	(1,227)	(191)	(167)
Fair Value of Plan Assets at end of year	\$ 47,777	\$ 39,541	\$ 1,760	\$ 1,442
<b>RECONCILIATION OF FUNDED STATUS:</b>				
Funded Status	\$ 12,263	\$ 969	\$(2,671)	\$(2,921)
Unrecognized Transition Obligation	57	114	6,288	6,707
Unrecognized Net Loss/(Gain)	(10,683)	677	(1,869)	(1,860)
Unrecognized Prior Service Cost	355	400	(3,228)	(3,427)
Prepaid/(Accrued) Pension Cost	\$ 1,992	\$ 2,160	\$(1,480)	\$(1,501)
<b>WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31:</b>				
Discount Rate	7.75%	6.50%	7.75%	6.50%
Long-term Rate of Return	8.00%	8.00%	8.00%	8.00%
Salary Assumption	4.00%	4.00%	--	--

A sliding scale for assumed health care cost increases was used for both periods, starting at 8% in 1999 and then remaining at 6% thereafter.

The components of net periodic post-retirement benefits cost for 1999 and 1998 are as follows:

(dollars in thousands)	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
COMPONENTS OF NET PERIODIC BENEFITS COST				
Service Cost	\$ 1,963	\$ 1,597	\$ 125	\$ 112
Interest Cost	2,538	2,278	305	283
Actual Return on Plan Assets	(8,277)	(6,051)	(25)	(44)
Net Amortization	5,207	3,476	58	67
Net Periodic Pension Cost	\$ 1,431	\$ 1,300	\$ 463	\$ 418

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(dollars in thousands)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on Total of Service and Interest Cost Components	\$ 13	\$ (12)
Effect on Postretirement Benefit Obligation	177	(156)

Registrant has a 401(k) Investment Incentive Program under which employees may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Company contributions to the 401(k) are based upon a percentage of individual employee contributions and, for 1999, 1998 and 1997, totaled \$920,340, \$874,113, and \$785,687, respectively.

#### NOTE 7 - BUSINESS RISKS AND CONCENTRATION OF SALES

Registrant's utility operations are engaged in supplying water and electric service to the public. SCW is required to provide service and grant credit to customers within its defined service areas. Although Registrant has a diversified base of residential, industrial and other customers, revenues derived from commercial and residential water customers accounted for approximately 90% of total water revenues in 1999 and 91% in 1998. Registrant faces additional risks associated with weather conditions, adequacy and quality of water supplies, regulatory decisions, pronouncements and laws, water-related litigation, general business conditions and condemnation

Approximately 40% of the SCW's water supply is purchased from wholesalers of imported water, with the remainder produced from company wells. The long-term availability of imported water supplies is dependent upon, among other things, drought conditions throughout the state, increases in population, water quality standards and legislation that may potentially reduce water supplies. SCW does not anticipate any constraints on its imported water supplies in 2000.

#### NOTE 8 - CONTINGENCIES

In 1998, ASUS was formed to pursue non-regulated opportunities such as long-term leases, and operation and maintenance contracts of governmentally-owned water and wastewater systems. In 1999, Registrant terminated its Golden State Water Company joint venture. Registrant expensed approximately \$336,000 against future losses and capital account adjustments in 1998. There was no significant financial impact in 1999 associated with the termination.

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.

SCW has been named as a defendant in eleven lawsuits which allege that SCW delivered contaminated water to its customers. Plaintiffs in these actions seek damages, including general, special, and punitive damages, according to proof of trial, as well as attorney's fees on certain causes of action, costs of suit, and other unspecified relief. Nine of the lawsuits involve customer service areas located in Los Angeles county in the southern portion of California; two of the lawsuits involve a customer service area located in Sacramento county in northern California. On September 1, 1999, the 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 pertaining to water quality filed against water utilities, including SCW. Seven out of eleven lawsuits against SCW had been ordered for dismissal by the state Court of Appeals. On October 11, 1999, one group of plaintiffs appealed the decision 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 2001.

In light of the breadth of plaintiff's claims, the lack of factual information regarding plaintiff's claims and injuries, if any, the fact that no discovery has yet been completed, SCW is unable to determine at this time what, if any, potential liability it may have with respect to these claims. SCW intends to vigorously defend itself against these allegations. Management can not predict the outcome of these proceedings and if SCW is found liable, SCW would pursue recovery through its insurance coverage providers.

In response to those lawsuits and similar actions, in March 1998 the CPUC issued an Order Instituting Investigation (OII) directed to all Class A and B water utilities in California, including SCW, into 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 notes the constitutional and statutory jurisdiction of the CPUC and the DOHS to establish and enforce adherence to water quality standards for water delivered by utilities to their customers and, in the case of the CPUC, to establish rates which permit water utilities to furnish water that meets the established water quality standards at prices which are both affordable and that allow the utility to earn a reasonable return on its investment. SCW has made its filing in this proceeding on a series of questions dealing with the current drinking water standards, compliance by water utilities with such standards, appropriate remedies for failure to comply with drinking standards and whether stricter or additional drinking water standards are required. The Water Division of the CPUC has issued its report based on these filings by the utilities. A final decision in the OII is anticipated in 2000. The OII leaves open the possibility of evidentiary hearings and further action by the CPUC. 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 by the CPUC.

Management believes that proper insurance coverage and reserves are in place to insure against anticipated property, general liability and workers' compensation claims.

## NOTE 9 - CONSTRUCTION PROGRAM

SCW's 2000 construction budget provides for gross expenditures of approximately \$59 million, \$3.6 million of which is anticipated to be obtained from developers and others. 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.

## NOTE 10 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

The table below presents SCW's provision for doubtful accounts charged to expense and accounts written off, net of recoveries for the last three years.

	December 31,		
	1999	1998	1997
	----- (dollars in thousands) -----		
Balance at beginning of year	\$ 403	\$ 466	\$ 387
Provision charged to expense	852	631	707
Accounts written off, net of recoveries	(768)	(694)	(628)
	-----		
Balance at end of year	\$ 487	\$ 403	\$ 466
	-----		

Neither AWR nor ASUS have established any provision for doubtful accounts.

## NOTE 11 - BUSINESS SEGMENTS

Registrant has two principal business units: a water and electric distribution unit, through its SCW subsidiary, and a non-regulated activity unit through the 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.

	YEAR ENDED DECEMBER 31, 1999				
	WATER			ELECTRIC	TOTAL
REGION I	REGION II	REGION III	----- (dollars in thousands) -----		
Operating revenues	\$ 27,221	\$ 70,770	\$ 61,692	\$13,348	\$173,031
Operating income before income taxes	6,567	15,841	16,022	3,821	42,251
Identifiable assets	108,675	140,175	177,457	25,725	452,032
Depreciation expense	2,736	4,041	5,395	1,344	13,516
Capital additions	\$ 12,966	\$ 21,926	\$ 14,513	\$ 2,173	\$ 51,578
	-----				

## Year Ended December 31, 1998

Water					
Region I	Region II	Region III	Electric	Total	
(dollars in thousands)					
Operating revenues	\$24,927	\$ 57,273	\$ 52,584	\$13,211	\$147,995
Operating income before income taxes	6,799	11,732	13,144	3,847	35,522
Identifiable assets	97,463	123,044	169,264	24,981	414,752
Depreciation expense	2,551	3,378	4,701	1,640	12,270
Capital additions	\$13,302	\$ 14,452	\$ 15,795	\$ 1,720	\$ 45,239

## Year Ended December 31, 1997

Water					
Region I	Region II	Region III	Electric	Total	
(dollars in thousands)					
Operating revenues	\$24,340	61,085	55,551	\$12,779	\$153,755
Operating income before income taxes	5,897	9,593	13,709	4,089	33,288
Identifiable assets	87,039	112,556	158,934	25,095	383,624
Depreciation expense	2,306	3,042	4,603	1,001	10,952
Capital additions	\$10,007	15,431	11,671	\$ 2,116	\$ 39,225

## NOTE 12 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The quarterly financial information presented below is unaudited. The business of Registrant is of a seasonal nature and it is management's opinion that comparisons of earnings for the quarter periods do not reflect overall trends and changes in Registrant's operations.

	Operating Revenues		Operating Income		Net Income		Earnings per Share	
	1999	1998	1999	1998	1999	1998	1999	1998
(in thousands, except per share amounts)								
First Quarter	\$ 36,132	\$ 29,955	\$ 5,854	\$ 4,382	\$ 2,977	\$ 1,843	\$0.33	\$0.20
Second Quarter	42,116	35,001	7,251	5,586	4,406	2,767	0.49	0.31
Third Quarter	51,597	47,002	10,266	9,432	6,690	6,374	0.74	0.71
Fourth Quarter	43,576	36,102	5,143	5,661	2,028	3,639	0.23	0.40
Year	\$173,421	\$148,060	\$28,514	\$25,061	\$16,101	\$14,623	\$1.79	\$1.62

## NOTE 13 - YEAR 2000 READINESS UPDATE

Registrant has no Y2K incidents, business disruptions, failures or legal proceedings to report. There were no effects or changes to Registrant's operating trends or revenue patterns as a result of the millennium turnover.

SCW formally announced its 100% Y2K Ready status when it filed its Compliance Report with the CPUC on November 1, 1999. SCW will be submitting the last CPUC report on this issue by March 1, 2000.

Registrant's general process for addressing the Y2K issue was (i) to inventory all systems that may have a potential Y2K impact, (ii) to determine the materiality of these non-Y2K ready systems, (iii) to replace and test, correct and test, or prepare for the failure of material items that have been determined to be non-Y2K ready, and (iv) to prepare contingency plans.

Registrant is significantly dependent on third party suppliers, such as energy and telecommunication companies and wholesale water suppliers. In order to conduct its business, Registrant initiated due diligence with certain of its major service providers to address their Y2K readiness. In the event that such suppliers might be adversely affected by Y2K, Registrant prepared its contingency plan which included, among other things, increased staffing during critical periods, manual back-up for

automated systems and the use of portable generators capable of providing power during a black-out. Several "dry runs" were exercised in 1999, which simulated Y2K situations that implemented Registrant's contingency plan. The dry runs proved to be effective exercises that identified areas of strength and weakness, and provided real-life experience from which to make informed decisions about Y2K preparation and contingency plan.

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 these 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 loss of utility services and disruption of water supplies.

On September 2, 1999, the CPUC issued an order denying regulated water utilities the authority to create memorandum accounts for Y2K expenses. The order, however, provides that, after January 1, 2000, regulated water utilities may file for recovery of capital investment, not otherwise included in current rates, associated with Y2K mitigation efforts. Y2K final expenditures have been estimated at approximately \$7.5 million. Registrant has spent \$4.8 million at January, 2000, \$4.0 million of which is in capital investments. On March 1, 2000, Registrant filed an advice letter with the CPUC for recovery of Y2K related costs. Registrant believes that these capital expenditures as well as the remaining Y2K-related investments will be recovered through rates, but can give no assurance that the CPUC will authorize recovery of all or some of these costs.

#### NOTE 14 - SUBSEQUENT EVENT

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. Chaparral City Water Company was purchased from MCO Properties Inc., a wholly-owned subsidiary of MAXXAM Inc. This marks the first acquisition outside of California for Registrant. The sale of Chaparral City Water Company requires notification to the Arizona Corporation Commission and other conditions customary in transactions of this type. The approval of Registrant's shareholders is not required. It is anticipated that the transaction will close within one year.

## REPORT OF MANAGEMENT

The consolidated financial statements contained in the annual report were prepared by the management of American States Water Company, which is responsible for their integrity and objectivity. The consolidated financial statements were prepared in accordance with generally accepted accounting principles and include, where necessary, amounts based upon management's best estimates and judgments. All other financial information in the annual report is consistent with the consolidated financial statements and is also the responsibility of management.

Registrant maintains systems of internal control which are designed to help safeguard the assets of Registrant and provide reasonable assurance that accounting and financial records can be relied upon to generate accurate financial statements. These systems include the hiring and training of qualified personnel, appropriate segregation of duties, delegation of authority and an internal audit function which has reporting responsibility to the Audit Committee of the board of directors.

The Audit Committee, composed of three outside directors, exercises oversight of management's discharge of its responsibilities regarding the systems of internal control and financial reporting. The committee periodically meets with management, the internal auditor and the independent accountants to review the work and findings of each. The committee also reviews the qualifications of, and recommends to the board of directors, a firm of independent accountants.

The independent accountants, Arthur Andersen LLP, have performed an audit of the consolidated financial statements in accordance with generally accepted auditing standards. Their audit gave consideration to Registrant's system of internal accounting control as a basis for establishing the nature, timing and scope of their work. The result of their work is expressed in their Report of Independent Public Accountants.

/s/ Floyd E. Wicks  
-----  
President, Chief Executive Officer

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

February 10, 2000

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of American States Water Company:

We have audited the accompanying consolidated balance sheets and statements of capitalization of American States Water Company and its subsidiary, Southern California Water Company (California corporations), as of December 31, 1999 and 1998 and the related consolidated statements of income, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Registrant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American States Water Company and its subsidiary, Southern California Water Company, as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

-----  
Arthur Andersen LLP  
Los Angeles, California

February 10, 2000, except for  
Note 14, as to which the date  
is March 10, 2000

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information responsive to Part III, Item 10 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 11. EXECUTIVE COMPENSATION

Information responsive to Part III, Item 11 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and "Performance Graph" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information responsive to Part III, Item 12 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information responsive to Part III, Item 13 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and is incorporated herein by reference pursuant to General Instruction G(3).

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) 1. Reference is made to the Financial Statements incorporated herein by reference to Part II, Item 8 hereof.
  2. All required schedules may be found in the Financial Statements and Notes to Financial Statements incorporated herein by reference to Part II, Item 8 hereof or at the conclusion of this Item. Schedules III, IV, and V are omitted as they are not applicable.
- (b) Exhibits -
- 3.1 By-Laws of American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated November 2, 1998. Commission File No. 333- 47647.

- 3.2 By-laws of Southern California Water Company incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
- 3.3 Amended and Restated Articles of Incorporation of American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated November 2, 1998. Commission File No. 333-47647.
  - 3.3.1 Certificate of Amendment of Amended and Restated Articles of Incorporation, dated August 25, 1998, of American States Water Company incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
  - 3.3.2 Certificate of Amendment of Amended and Restated Articles of Incorporation of American States Water Company, dated August 25, 1999.(1)
- 3.3 Restated Articles of Incorporation of Southern California Water Company incorporated herein by reference to Registrant's Form 8-K, dated January 20, 1999. Commission File No. 000-01121.
- 4.1 Amended and Restated Rights Agreement, dated January 25, 1999, by and between American States Water Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
- 4.2 Indenture, dated September 1, 1993 between Southern California Water Company and Chemical Trust Company of California incorporated herein by reference to Registrant's Form 8-K. Registration No. 33-62832.
- 10.1 Agreement of Merger dated as of June 25, 1998 by and among Southern California Water Company, SCW Acquisition Corp. and American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated July 1, 1998. Commission File No. 333-47647.
- 10.2 Deferred Compensation Plan for Directors and Executives incorporated herein by reference to Registrant's Registration Statement on Form S-2. Registration No. 33-5151.(2)
- 10.3 Reimbursement Agreement, dated October 3, 1997, between Southern California Water Company and The Bank of Nova Scotia incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1997. Commission File No. 000-01121.
- 10.4 Second Sublease dated October 5, 1984 between Southern California Water Company and Three Valleys Municipal Water District incorporated herein by reference to Registrant's Registration Statement on Form S-2. Registration No. 33-5151.

- 10.5 Note Agreement dated as of May 15, 1991 between Southern California Water Company and Transamerica Occidental Life Insurance Company incorporated herein by reference to Registrant's Form 10-Q with respect to the quarter ended June 30, 1991. Commission File No. 000-01121.
- 10.6 Schedule of omitted Note Agreements, dated May 15, 1991, between Southern California Water Company and Transamerica Annuity Life Insurance Company, and Southern California Water Company and First Colony Life Insurance Company incorporated herein by reference to Registrant's Form 10-Q with respect to the quarter ended June 30, 1991. Commission File No. 000-01121.
- 10.7 Loan Agreement between California Pollution Control Financing Authority and Southern California Water Company, dated as of December 1, 1996 incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
- 10.8 Agreement for Financing Capital Improvement dated as of June 2, 1992 between Southern California Water Company and Three Valleys Municipal Water District incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1992. Commission File No. 000-01121.
- 10.9 Water Supply Agreement dated as of June 1, 1994 between Southern California Water Company and Central Coast Water Authority incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1994. Commission File No. 000-01121.
- 10.10 Amended and Restated Retirement Plan for Non-Employee Directors of American States Water Company, dated as of October 25, 1999.(1)(2)
- 10.11 Dividend Reinvestment and Common Share Purchase Plan incorporated herein by reference to American States Water Company Rule 424 (b) (3) filing dated October 27, 1999. Commission File No. 333-88979.
- 10.12 Key Executive Long-Term Incentive Plan incorporated herein by reference to Registrant's 1995 Proxy Statement, Commission File No. 00 0-01121.(2)
- 10.13 Energy Management Services Agreement between Southern California Water Company and Illinova Energy Partners, Inc.(1)
- 10.14 Amended and Restated Change in Control Agreements, dated as of October 25, 1999, between American States Water Company, Southern California Water Company and certain executives.(1)(2)
- 10.15 Amended and Restated Change in Control Agreements, dated as of October 25, 1999, between Southern California Water Company and certain executives.(1)(2)
- 10.16 Southern California Water Company Pension Restoration Plan.(1)(2)
- 10.17 American States Water Company Annual Incentive Plan.(1)(2)
13. 1999 Annual Report to Shareholders.(1)

21. Subsidiaries of Registrant incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1998. Commission File No. 001-14431.

23. Consent of Independent Public Accountants.(1)

27. Schedule UT.(1)

(d) None.

-----

(1) Filed concurrently herewith

(2) Management contract or compensatory arrangement

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SUPPLEMENTAL SCHEDULE

To American States Water Company:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in this Form 10-K, and have issued our report thereon dated February 10, 2000. Our audits of the consolidated financial statements were made for the purpose of forming an opinion on those basic consolidated financial statements taken as a whole. The supplemental schedule listed in Part IV of this Form 10-K, which is the responsibility of American States Water Company's management, is presented for purposes of complying with the Securities and Exchange Commission's rules and regulations, and is not part of the basic consolidated financial statements. This supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/ Arthur Andersen LLP

-----

Arthur Andersen LLP  
Los Angeles, California

February 10, 2000

## AMERICAN STATES WATER COMPANY

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF PARENT  
CONDENSED BALANCE SHEETS

	December 31,	
	----- 1999 -----	1998 -----
	(in thousands)	
<b>ASSETS</b>		
Cash and equivalents	\$ 169	\$ 96
Other current assets	4,003	139
	-----	-----
Total current assets	4,172	235
Investments in subsidiaries	160,370	156,035
Other deferred debits	123	50
	=====	=====
Total assets	\$ 164,665	\$ 156,320
	=====	=====
<b>LIABILITIES AND CAPITALIZATION</b>		
Accounts payable	\$ 4,116	\$ 164
Other current liabilities	(257)	(143)
	-----	-----
Total current liabilities	3,859	21
Common shareholders' equity	158,846	154,299
Preferred shares	1,960	2,000
	-----	-----
Total capitalization	160,806	156,299
	-----	-----
Total liabilities and capitalization	\$ 164,665	\$ 156,320
	=====	=====

## CONDENSED STATEMENTS OF INCOME

For the Year Ended December 31, 1999, and the Six Months Ended December 31, 1998

	1999	1998
	(in thousands except per share amount)	
Operating Revenue And Other Income	\$ 413	\$ (397)
Operating Expenses	654	166
	-----	-----
Loss Before Equity in Earnings of Subsidiaries	(241)	(563)
Equity in Earnings of Subsidiaries	16,342	15,140
	-----	-----
Net Income	16,101	14,577
Dividends on Preferred Shares	(88)	(44)
	-----	-----
Earnings Available For Common Shareholders	\$ 16,013	\$ 14,533
	-----	-----
Weighted Average Number of Common Shares Outstanding	8,958	8,958
	-----	-----
Basic Earnings Per Common Share	\$ 1.79	\$ 1.62
	-----	-----

## CONDENSED STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 1999, and the Six Months Ended December 31, 1998

	1999 -----	1998 -----
	(in thousands)	
Cash Flows From Operating Activities	\$ 11,666 -----	\$ 5,793 -----
Cash Flows Used in Financing Activities	(11,593) -----	(5,697) -----
Increase (Decrease) in Cash and Equivalents	73	96
Cash and Equivalents at Beginning of Period	96 -----	-- -----
Cash and Equivalents at the End of Period	\$ 169 -----	\$ 96 -----
Cash dividends received from Southern California Water Company	\$ 12,040	\$ 5,889

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN STATES WATER COMPANY  
and its subsidiary  
SOUTHERN CALIFORNIA WATER COMPANY

By: /s/ McCLELLAN HARRIS III .

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

Date: March 15, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities and on the dates indicated.

/s/ LLOYD E. ROSS . Date: March 15, 2000

-----  
Lloyd E. Ross  
Chairman of the Board and Director

/s/ FLOYD E. WICKS . March 15, 2000

-----  
Floyd E. Wicks  
Principal Executive Officer;  
President, CEO and Director

/s/ McCLELLAN HARRIS III . March 15, 2000

-----  
Clellan Harris III  
Principal Financial and Accounting Officer;  
CFO, VP - Finance, Treasurer and Secretary

/s/ LINDA J. MATLICK . March 15, 2000

-----  
Linda J. Matlick  
Controller - Southern California Water Company

/s/ JAMES L. ANDERSON . March 15, 2000

-----  
James L. Anderson, Director

/s/ JEAN E. AUER . March 15, 2000  
-----  
Jean E. Auer, Director

/s/ N. P. DODGE, JR. . March 15, 2000  
-----  
N. P. Dodge, Jr., Director

/s/ ANNE M. HOLLOWAY . March 15, 2000  
-----  
Anne M. Holloway, Director

/s/ ROBERT F. KATHOL . March 15, 2000  
-----  
Robert F. Kathol, Director

CERTIFICATE OF AMENDMENT OF AMENDED AND RESTATED ARTICLES OF  
INCORPORATION OF AMERICAN STATES WATER COMPANY,  
DATED AUGUST 25, 1999

CERTIFICATE OF AMENDMENT  
OF  
AMENDED AND RESTATED ARTICLES OF INCORPORATION  
OF  
AMERICAN STATES WATER COMPANY  
(A CALIFORNIA CORPORATION)

Floyd E. Wicks and McClellan Harris III certify that:

1. They are the duly elected and acting President and Secretary, respectively of American States Water Company (the "Corporation").

2. The Amended and Restated Articles of Incorporation of the Corporation shall be amended by striking in its entirety the first full paragraph of Article IV of the Amended and Restated Articles of Incorporation which now reads:

"This Corporation is authorized to issue three classes of stock to be designated, respectively, "New Preferred Shares", "Preferred Shares", and "Common Shares". The total number of shares which this Corporation is authorized to issue is 30,231,600; 150,000 shares are to be New Preferred Shares with no par value and a stated value of \$100 per share and an aggregate stated value of \$15,000,000; 81,600 shares are to be Preferred Shares with a par value of \$25 per share and an aggregate par value of \$2,040,000; and 30,000,000 shares are to be Common Shares with no par value and a stated value of \$2.50 per share and an aggregate par value of \$75,000,000."

and substituting therefore the following paragraph to read in full as follows:

"This Corporation is authorized to issue three classes of stock to be designated, respectively, "New Preferred Shares", "Preferred Shares", and "Common Shares". The total number of shares which this Corporation is authorized to issue is 30,230,000; 150,000 shares are to be New Preferred Shares with no par value and a stated value of \$100 per share and an aggregate stated value of \$15,000,000; 80,000 shares are to be Preferred Shares with a par value of \$25 per share and an aggregate par value of \$2,000,000; and 30,000,000 shares are to be Common Shares with no par value and a stated value of \$2.50 per share and an aggregate par value of \$75,000,000."

3. The Restated Articles of Incorporation of the Corporation shall be further amended by striking in its entirety paragraph (ii) of Paragraph 15 of Article IV of the Amended and Restated Articles of Incorporation which now reads:

"(ii) Number of Shares. The authorized number of shares constituting said Preferred Shares, 5% Series, shall be 17,600."

and substituting therefore the following paragraph to read in full as follows:

"(ii) Number of Shares. The authorized number of shares constituting said Preferred Shares, 5% Series, shall be 16,000."

4. The foregoing amendments set forth in paragraphs 2 and 3 of this Certificate are each amendments that may be adopted by the Board of Directors alone (and which were so adopted) because the amendments are required by Section 510 of the California General Corporation Law to reflect the reacquisition of a portion of the Corporation's Preferred Shares, 5% Series, \$25 par value, in accordance with the sinking fund provisions thereof. Such reacquired Preferred Shares cannot be reissued.

5. The foregoing amendments have been duly approved by the Board of Directors as required by Section 905(b) of the California General Corporation Law.

We further declare, under penalty of perjury under the laws of the State of California, that the matters set forth in this Certificate of Amendment are true and correct.

IN WITNESS WHEREOF, the undersigned have executed this Certificate in San Dimas, California on this 11th day of August, 1999.

-----  
FLOYD E. WICKS, President

-----  
McCLELLAN HARRIS III, Secretary

August 10, 1999

Office of the Secretary of State  
State of California  
Attn: Certification Unit  
1500 - 11th Street  
Sacramento, CA 95814

Ladies and Gentlemen:

RE: American States Water Company  
Corporate No. 137226

Please find enclosed herewith for filing two (2) originals of a Certificate of Amendment of Restated Articles of Incorporation of American States Water Company, a California Corporation. One original should be filed with your office and the other is to be date stamped and returned to me in the enclosed self-addressed, prepaid envelope.

In addition, please find the Corporation's check for \$30.00, which represents the filing fee.

Any questions regarding this matter should be directed to the undersigned person at (909) 394-3600, extension 705.

Sincerely,

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

Enclosure(s)

AMENDED AND RESTATED RETIREMENT PLAN  
FOR NON-EMPLOYEE DIRECTORS OF AMERICAN STATES WATER COMPANY  
DATED AS OF OCTOBER 25, 1999

AMENDED AND RESTATED RETIREMENT PLAN  
FOR  
NON-EMPLOYEE DIRECTORS  
OF  
AMERICAN STATES WATER COMPANY

AMENDED AND RESTATED RETIREMENT PLAN  
FOR  
NON-EMPLOYEE DIRECTORS

TABLE OF CONTENTS

SECTION I	Definitions.....	1
SECTION II	Participation.....	2
SECTION III	Retirement of Directors.....	2
SECTION IV	Retirement Benefit.....	2
SECTION V	Participant's Rights Unsecured.....	3
SECTION VI	Termination of Plan.....	3
SECTION VII	Amendment of Plan.....	3
SECTION VIII	Change in Control.....	3

This Amended and Restated Retirement Plan for Non-Employee Directors of American States Water Company is dated as of October 25, 1999, and restates in its entirety the Retirement Plan for Non-Employee Directors dated as of January 25, 1995.

#### SECTION I. DEFINITIONS

When the following terms are used in this Plan, with the first letter capitalized, they mean:

"AWR" - American States Water Company, a California corporation.

"Change in Control" - any of the following events:

(a) the dissolution or liquidation of either the Corporation or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(b) Any sales, lease, exchange or other transfer (in one or a series of transactions) of all or substantially all of the assets of either the Corporation or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(c) any reorganization or merger of the Corporation or AWR, unless the holders of AWR's voting securities immediately before the event own, wither directly or indirectly, more than 50% of the continuing surviving entity's voting securities immediately after the event;

(d) an acquisition by any person, entity or group in concert of more than 50% of the voting securities of the Corporation or AWR, unless the holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the acquirer's voting securities immediately after the acquisition; or

(e) a change of one-half or more of the members of the Board of Directors of the Corporation or AWR within a twelve-month period, unless the election or nomination for election by shareholders or new directors within such period constituting a majority of the applicable Board was approved by the vote of at least two-thirds of the directors then still in office who were in office at the beginning of the twelve-month period.

"Compensation" - the annual amount payable to a Director for serving as a director (assuming all regular meetings are attended and no special meetings are held) or, if an annual retainer is provided, the amount of the annual retainer, in each case as on effect at the Retirement Date of the Director. If such Compensation of any Director who is a participant is at a rate higher than the rate applicable to Participants generally (e.g.; because of service in an additional

capacity such as Chairman of the Board, service on a committee of the Board or otherwise) the Compensation of that Director shall, for purposes of this Plan, be at the same rate as that of Participants generally.

"Corporation" - Southern California Water Company, a California corporation.

"Director" - a member of the Board of Directors.

"Participant" - a Director who is not a full-time employee of the Corporation and who enters into the agreement set forth in Sections 2 and 3 applicable to that Director.

"Retirement Benefit" - the date when a Participant ceases to be a Director, other than by removal for cause.

#### SECTION II. PARTICIPATION

This Plan shall cover each Participant; provided, that each Director who desires to become a Participant must agree to accept nomination as a Director if requested by the Board of Directors and, if so nominated and elected, to serve as a Director for at least ten years after his or her original election as a Director.

#### SECTION III. RETIREMENT OF DIRECTORS

Each Participant agrees to retire as a Director and not to seek reelection or election to the Board of Directors at, or to remain as a Director after, the annual meeting of Shareholders of the Corporation occurring on or next following the date when that Participant attains the age of 72.

#### SECTION IV. RETIREMENT BENEFIT

If the Retirement Date of a Participant occurs before he or she is 62 years old, he or she shall be entitled to receive a monthly Retirement Benefit in an amount equal to one-twelfth of his or her Compensation, payable commencing on the first day of the month after he or she attains or would have attained age 62, unless the Participant ceases to be a Director because of health reasons, evidence of which is accepted as satisfactory by the Board of Directors, or death in either of which events Retirement Benefits in accordance with this Plan shall be payable commencing immediately after the Retirement Date or such later date as the Participant may have specified in writing to the Corporation.

If the Retirement Date of a Participant occurs on or after she becomes 62 years old, he or she shall be entitled to receive a monthly Retirement Benefit in an amount equal to one-twelfth of his or her Compensation, payable in monthly installments, with the first payment to be made the first day of the month following the Participants' Retirement Date.

Payment of a Retirement Benefit shall continue for a period equal to the shortest of (a) the life of the Participant following his or her Retirement Date or, if the Participant is married at his or here Retirement Date, the combined lives of the Participant and spouse, (b) the same number of months as the Participant was a Director and not also a full-time employee of the

Company or (c) ten (10) years. If a participant is married at his or her Retirement Date and dies before the end of the period for which payments are to be made and is survived by the spouse, the spouse shall be entitled to receive payment of the Retirement Benefit for the balance of the payment period.

#### SECTION V. PARTICIPANT'S RIGHTS UNSECURED

The right of any participant to receive a Retirement Benefit shall be an unsecured claim against the general assets of the Corporation. There shall be no funding of any Retirement Benefits which may become payable hereunder. No trust shall be created in connection with or by the execution or adoption of this Plan.

#### SECTION VI. TERMINATION OF PLAN

Subject to Section VIII, The Board of Directors of the Corporation may terminate the Plan at any time. A Participant receiving, or who has retired from the Board and is entitled at the time of termination to receive, a Retirement Benefit under the terms of the Plan, however, shall continue, after the Plan terminated, to receive or be entitled to receive, that Retirement Benefit pursuant to the terms of the Plan as in effect at the time of its termination.

#### SECTION VII. AMENDMENT OF PLAN

Subject to Section VIII, The Board of Directors of the Corporation may amend the Plan at any time; provided, however, that no such amendment shall retroactively affect the payments made under the Plan or reduce the payables receivable by any Director who is then receiving or who has retired from the Board and is entitled to receive, a Retirement Benefit under the Plan.

#### SECTION VIII. CHANGE IN CONTROL

This Section shall supersede any conflicting provision of the Plan.

In the event of a Change in Control, in lieu of all other benefits provided hereunder, the Participant shall be entitled to receive a lump sum payment equal to the present value, assuming an interest rate of 6% per annum, of a stream of annual payments for ten (10) years, each such annual payment to be equal to his or her Compensation immediately prior to the Change in Control.

This Section may not be amended after either a Change in Control or the approval of a plan or agreement for a Change in Control by the Board of Directors of either AWR or the Corporation, unless such plan or agreement is terminated

ENERGY MANAGEMENT SERVICE AGREEMENT  
WITH ILLINOVA ENERGY PARTNERS, INC.

April 5, 1999

Mr. Joel Dickson  
Vice President of Customer Service and Operations Support  
Southern California Water Company  
630 E. Foothill Blvd.  
San Dimas, CA 91773

Dear Mr. Dickson:

This letter constitutes an Agreement ("Agreement") between ILLINOVA ENERGY PARTNERS, INC. ("IEPI"), a Delaware corporation, and the Southern California Water Company (SCWC) and its Bear Valley Electric Division (BEAR VALLEY). IEPI and SCWC are each sometimes referred to herein as "Party" and are collectively referred to as "Parties." The purpose of this Agreement is to enable a Party to purchase, sell or exchange capacity, energy, and/or other services (a "Transaction") from, to, or with the other Party in accordance with the terms and conditions provided herein. This Agreement is not intended to obligate either Party to purchase, sell or exchange any amount of such capacity, energy, and/or other services from, to or with the other Party except as provided herein.

#### Term and Conditions

##### 1. Term of Agreement

This Agreement shall become effective upon execution by both Parties and commence on May 1, 1999, and shall remain in effect until April 30, 2002; provided, however, that this Agreement shall remain in effect as to any Transaction agreed upon by the Parties prior to termination until the completion of and final payment for such Transaction.

##### 2. Availability for Purchase, Sale or Exchange of Capacity, Energy and/or Other Services

a. IEPI shall provide services under this section pursuant to the terms and conditions of the Scheduling Coordination and Real-Time Services Agreement between IEPI and SCWC, dated April 5, 1999.

3. Compensation for Capacity, Energy and/or Other Services

The compensation to be paid with respect to a Transaction hereunder shall be as specified in the agreement entered into pursuant to Section 2(b) or Section(c); provided, however, that the compensation for a sale of capacity, energy and/or other services by IEPI shall be pursuant to IEPI's then current FERC Electric Rate Schedule. IEPI's current schedule, Schedule No. 1, is attached hereto as Exhibit A and made a part hereof. Such Schedule may be amended from time to time.

4. Reliability

Both IEPI and SCWC shall comply with the operation and scheduling guidelines specified by the North American Electric Reliability Council and the Western Systems Coordinating Council.

5. Billing and Payment

- a. All power Transactions hereunder shall be accounted for on the basis of scheduled hourly quantities. Each Party shall maintain records of hourly schedules for accounting and operating purposes. The billing period for Transactions hereunder shall be one (1) calendar month.
- b. A bill shall be submitted within approximately ten (10) days following the last day of each month covering Transactions during that month. Payment shall be due within twenty (20) days of the date the bill was received. Payment shall be made by electronic wire transfer to the address set forth in this Section 5.
- c. Amounts not paid on or before the due date shall accrue interest at one and one half percent (1 1/2%) per month or the maximum rate permitted by law, whichever is less, from the due date until payment is made.
- d. In the event any portion of a bill is in dispute, the disputed amount shall be paid under protest when due. The dispute shall be discussed and resolved by the Authorized Representatives, who shall use their best efforts to amicably and promptly resolve the dispute. Upon determination of the correct billing amount, the proper adjustment shall be paid or refunded promptly with interest accrued in accordance with Section 5(c) and computed from the date payment was received to the date the adjustment is made.

- e. All billings to SCWC shall be sent to:

Mr. Raymond P. Juels  
Manager of Energy Resources  
Southern California Water Company  
630 E. Foothill Blvd.  
San Dimas, CA 91773

or to such address as SCWC may specify by written notice given as provided herein.

- f. All payments to IEPI greater than \$50,000 shall be by wire transfer to:

American National Bank  
2000 South Naperville Road  
Wheaton, IL 60187  
ABA#: 071000770  
Account#: 1818-0752  
For Illinova Energy Partners

All payments to IEPI less than \$50,000 may be made by check to:

Illinova Power Marketing, Inc.  
Attention: Jennifer Hughey, Controller  
6955 Union Park Center, Suite 300  
Midvale, Utah 84047

or to such other address as IEPI may specify by written notice given as provided herein.

6. Authorized Representatives

Within thirty (30) days after execution of this Agreement, each Party shall designate in writing its Authorized Representative(s) for purposes of this Agreement. Either Party may, by written notice to the other given as provided herein, change its Authorized Representative(s).

7. Tax Liability

All transactions are subject to any applicable sales, use, franchise, excise, ad valorem or other similar tax. Receipt of satisfactory evidence of exemption is required to avoid any applicable taxation.

8. Notices

All written notices under this Agreement (except bills given pursuant to Section 5) shall be deemed effective upon receipt if delivered in person or sent by facsimile, express courier, or registered or certified mail, postage prepaid, to the address specified below:

If to IEPI:

Illinova Power Marketing, Inc.  
Attention: Jennifer Hughey, Controller  
6955 Union Park Center, Suite 300  
Midvale, Utah 84047  
Fax No.: (801) 568-2104

If to SCWC:

Mr. Raymond P. Juels  
Manager of Energy Resources  
Southern California Water Company  
630 E. Foothill Blvd.  
San Dimas, CA 91773

A Party may, by notice given as provided in this Section, change the address to which notice is to be given.

9. Necessary Authorization

Each Party represents that it has the necessary corporate and/or legal authority to enter into this Agreement and to perform each and every duty and obligation imposed herein, and that this Agreement constitutes a valid, binding and enforceable obligation of such Party. Each individual affixing a signature to this Agreement represents and warrants that he or she has been duly authorized to execute this Agreement on behalf of the Party he or she represents.

10. indemnification

Each party agrees to protect, indemnify and hold harmless the other Party, its directors, officers, employees and agents, against and from any and all losses, claims, actions, suits and proceedings (including attorneys fees and costs) for or on account of injury to or death of persons or damage to property resulting from or arising out of the indemnifying Party's actions or facilities, excepting only such injury, death, or damage as may be caused by the fault or negligence of the other Party, its directors, officers, employees, or agents. This Section 10 is not intended to impose on a Party an obligation to protect, indemnify and defend the other Party with respect to injury or death of persons or damage to property, resulting from or arising out of the fault or negligence of entities or persons other than a Party, its directors, officers, employees or agents.

11. Uncontrollable Forces

Neither Party shall be considered to be in default in the performance of any obligations under this Agreement (other than obligations to pay bills) when and to the extent such failure of performance shall be due to any uncontrollable force. The term "uncontrollable force" shall mean any cause beyond the control of the Party affected, including but not restricted to, failure or threat of failure of facilities, flood, earthquake, geohydraulic subsidence, tornado, storm, fire, or other catastrophe, civil disobedience, labor dispute, or sabotage, restraint by court order or public authority (whether valid or invalid), and action or non-action by or inability to obtain or maintain the necessary authorizations or approvals from any governmental agency or authority. An "uncontrollable force" must be a cause which by exercise of due diligence the affected Party could not reasonably have been expected to avoid and which by exercise of due diligence it shall not be able to overcome. The failure to perform for any reason of any supplier of capacity, energy or other services to IEPI shall constitute an uncontrollable force affecting IEPI and entitling IEPI to relief under this Section 11. No Party shall, however, be relieved of liability for failure of performance if such failure is due to causes arising out of its own negligence or due to removable or remediable causes which it fails to remove or remedy within a reasonable time period. Nothing contained herein shall be construed so as to require a Party to settle any strike or labor dispute in which it may be involved. A Party rendered unable to fulfill any of its obligations under this Agreement by reason of uncontrollable force shall give prompt written notice of such fact to the other Party and shall exercise due diligence to remove such inability with all reasonable dispatch.

12. Audit Rights

Upon prior notice, SCWC shall have the right to designate its own employee representative(s) or its contracted representative(s) with a certified public accounting firm who shall have the right to examine those accounts, books, records, or supporting documentation to verify the accuracy of any statement, charge, computation or demand made under or pursuant to any agreement and related capacity, energy, transmission or other electric services agreements. Any such audit(s) shall be at the auditing Party's expense and undertaken at responsible times and in conformance with generally accepted auditing standards. The IEPI agrees to fully cooperate with any such audit(s).

The right to audit shall extend during the length of any agreement and for a period of not more than one (1) year following the month in which services were performed. The Parties shall retain all necessary records and documentation for the entire length of this audit period.

13. Control and Payment of Subordinates

SCWC retains IEPI on an independent contractor basis and not as an employee. The personnel performing the services contemplated by this agreement on behalf of SCWC shall at all times be under IEPI's exclusive direction and control and are not employees of SCWC. IEPI shall pay all wages, salaries, and other amounts due such personnel in connection with their performance of services under any agreement and as required by law. IEPI shall be responsible for all reports and obligations regarding such personnel including, but not limited to: social security taxes, income tax withholding, unemployment insurance, and worker's compensation insurance.

14. Fair Employment

Parties agree not to unlawfully discriminate in its employment practices against any employee, applicant for employment, or group of people on the basis of race, religion, color, sex, age, physical condition or national origin.

15. Assignment

No transfer or assignment of all or any part of this Agreement or of any rights, benefits, or duties hereunder by any Party shall be effective without the prior written consent of the other Party, which consent shall not be unreasonably withheld; provided, that this Section 15 shall not apply to interests which arise by reason of security agreements

heretofore granted or executed by a Party, or to an assignment to the successor of a Party by merger or corporate reorganization.

16. No Dedication of Facilities

Any undertaking by one Party under any provisions of this Agreement shall not constitute the dedication of the system or any portion thereof of such Party to the public or to the other Party or any other person or entity, and it is understood and agreed that any such undertaking by either Party shall cease upon the termination of such Party's obligations under this Agreement.

17. Choice of Laws

This Agreement shall be governed by and construed in accordance with the laws of the State of California, except to the extent preempted by the Federal Power Act and the rules and regulations of the FERC.

18. Binding Effect

The terms and provisions of this Agreement, and the respective rights and obligations hereunder of each Party, shall be binding upon, and inure to the benefits of, its successors and permitted assigns.

19. Non-Waiver of Defaults

No waiver by either Party of any default of the other Party under this Agreement shall operate as a waiver of a future default, whether of a like or different character.

20. Written Amendments

No modification of the terms and provisions of this Agreement shall be or become effective except by written amendment executed by the Parties.

21. Severability

Should any provision of this Agreement for any reason be declared invalid or unenforceable by final and applicable order of any court or regulatory body having jurisdiction, such decision shall not affect the validity of the remaining portions, and the remaining portions shall remain in force and effect as if this Agreement had been executed without the invalid

portion. This Agreement is subject to review by the California Public Utilities Commission "CPUC". The Agreement may be terminated if disapproved by the CPUC: however, SCWC shall be liable for any economic damages to IEPI with respect to any power transactions made under this Agreement with IEPI.

22. Survival

Any provisions(s) of this Agreement that expressly or by implication comes into or remains in force following the termination or expiration of this Agreement shall survive the termination or expiration of this Agreement.

If the foregoing terms are acceptable to SCWC, please sign and return one copy of this Agreement. The remaining copy is for your files.

Sincerely,

/s/ MARK V. ALLEN  
-----  
Mark V. Allen  
Director, Regional Marketing  
Illinova Energy Partners, Inc.

Accepted as of this 5 day of April, 1999 for:

The Southern California Water Company

/s/ JOEL A. DICKSON  
-----  
Joel A. Dickson

By: Mr. Joel Dickson  
Title: Vice President of Customer Service and Operations Support

## EXHIBIT A

ILLINOVA ENERGY PARTNERS, INC.  
FERC TARIFF NO. 1

1. Availability: Illinova Energy Partners, Inc. ("IEPI") makes electric energy and capacity available for resale under this Rate Schedule to any purchaser.
2. Applicability: This schedule is applicable to all sales of energy or capacity by IEPI not otherwise subject to a particular rate schedule of IEPI.
3. Rates: All sales shall be made at rates established by agreement between the purchaser and IEPI.
4. Other Terms and Conditions: All other terms and conditions shall be established by agreement between the purchaser and IEPI.
5. Affiliate Sales and Purchases Prohibited: No sale or purchase may be made pursuant to this Rate Schedule to or from any IEPI affiliate.
6. Effective Date: This Rate Schedule is effective on and after May 20, 1995.

Mr. Raymond P. Juels  
Manager of Energy Resources  
Southern California Water Company  
630 E. Foothill Blvd.  
San Dimas, CA 91773

RE: Illinova Energy Partners, Inc. (IEP) Agreements with Southern California  
Water Company (SCWC) for Electric Power Management Services

Dear Ray:

IEP hereby submits its originals of our three-year Daily Purchasing Agreement.

Please execute both originals for each agreement, keep one for your records and forward one executed original back to IEP per my attention. I look forward to our transition meeting at 2:00 p.m. in IEP's Irvine offices on Friday, April 23, 1999.

If you have any questions, please call myself at (801) 568-2126. Thank you again for your business, and Illinova looks forward to commencing service for you.

Sincerely,

/s/ MARK V. ALLEN

Mark V. Allen  
Director, Regional Marketing

VIA FACSIMILE

April 5, 1999 IEP REF# S- S-BEAR VALLEY - SCWC-001  
 Mr. Joel Dickson  
 Vice President of Customer Service and Operations Support  
 Southern California Water Company  
 630 E. Foothill Blvd.  
 San Dimas, CA 91773

This letter agreement outlines the terms and conditions of a transaction between the Southern California Water Company, its Bear Valley Electric Division and Illinova Energy Partners, Inc. (IEP).

BUYER: Southern California Water Company

SELLER: Illinova Energy Partners, Inc.

PRODUCT: Firm Energy

TERM: May 1, 1999 through April 30, 2000.

HOURS: Monday through Sunday, Hour Ending (HE) 0100 through Hour Ending (HE) 2400, Pacific Prevailing Time (PPT), including NERC Holidays.

AMOUNT:	MW PER HOUR	DAYS	HOURS PER DAY	TOTAL Mwh
	-----	-----	-----	-----
	12	365	24	105,120

PRICE: US DOLLARS \$28.00/MWh

POINT OF DELIVERY: Delivered at California PX location take-out points, including Victorville-Lugo midpoint and Vista Substation.

SCHEDULING: IEP will schedule energy based upon the amounts above. IEP's telephone numbers for real-time coverage of this agreement are (801) 568-2151 and 1-800-500-3260.

CURTAILMENTS: Curtailments are only permitted for system emergencies due to UNCONTROLLABLE FORCES (unanticipated events that prevent a Party from performing it's obligations at the Delivery Point to deliver or receive energy, which is not within the reasonable control and which by the exercise of all commercial efforts such Party has been unable to overcome or obtain or cause to be obtained substitute performance therefore). Curtailments shall not be made for economic reasons.

DAMAGES: If SELLER fails to deliver the Amount, where such failure was not excused by uncontrollable forces (as defined under Curtailments) or by Buyer, Seller shall be liable to Buyer for all such energy. The liability shall be calculated as the difference between



acquiesce in the commencement of a proceeding or cause under any bankruptcy or similar law for the protection of creditors or have such petition filed or proceeding commenced against it; (iii) otherwise become bankrupt or insolvent (however evidenced); (iv) be unable to pay its debts as they fall due; or (v) default in its payment or performance of any obligation to the other Party under this Agreement and fail to give adequate security, or assurance of, its ability to perform its further obligation under this Agreement within forty-eight (48) hours of a reasonable request by the other Party, then the other party shall have the right, without prior notice, to withhold payment or suspend deliveries or terminate this Agreement, in addition to any and all other remedies available hereunder or pursuant to the law.

If the terms and conditions shown above accurately reflect your understanding of our agreement, please indicate by signing and returning a facsimile copy of this Agreement to IEP at (801) 568-2103.

Sincerely,

Illinova Energy Partners

Southern California Water Company

/s/ MARK V. ALLEN

/s/ JOEL DICKSON

-----  
Mark V. Allen  
Director, Regional Marketing

-----  
Mr. Joel Dickson  
Vice President of Customer & Operations  
Support

VIA FACSIMILE

APRIL 7, 1999

IEP REF# S-BEAR VALLEY - SCWC-DAILY PURCHASING AGREEMENT

Mr. Joel Dickson

Vice President of Customer Service and Operations Support

Southern California Water Company

630 E. Foothill Blvd.

San Dimas, CA 91773

This letter agreement outlines the terms and conditions of a transaction between the Southern California Water Company, its Bear Valley Electric Division and Illinova Energy Partners, Inc. (IEP).

BUYER: Southern California Water Company (SCWC)

SELLER: Illinova Energy Partners, Inc.

PRODUCT: Daily Energy Purchasing: the total amount of energy required to satisfy SCWC load for Bear Valley Electric during the term of this agreement on a daily, to monthly forward, basis, less any forward purchase made under separate confirmation by SCWC with IEP.

TERM: May 1, 1999 through April 30, 2002.

HOURS: Monday through Sunday, Hour Ending (HE) 0100 through Hour Ending (HE) 2400, Pacific Prevailing Time (PPT), including NERC Holidays.

AMOUNT:

VARIES	1096	24	VARIES
--------	------	----	--------

PRICE: The price for the Product supplied to SCWC will be on a total pass through basis to purchase from various power sources including the California Power Exchange. All fees, charges, including but not limited to ISO ancillary services, PX fees and losses shall be included in the price.

PERFORMANCE: IEP will be paid monthly based on a Performance Benchmark Incentive Payment, for energy purchased under this agreement, on a daily basis as follows: 40% of the daily savings for taking the positive resultant between [the product total of {the Power Exchange Clearing Price "Day Ahead Zonal Price Constrained "LA 4" (as listed on the calpx.com website), plus the daily purchasing administrative charge for the California Power Exchange, plus the applicable ISO Wheeling Access Charges, plus Grid Management Charges, plus Spin and Non-Spin Charges} multiplied by hourly load during the period in excess of any firm energy purchased from IEP under a separate agreement for the same period] minus IEP's Delivered Cost at the Victorville-Lugo Midpoint. Such calculations of performance shall identify all applicable line items when billed.

April 9, 1999

POINT OF DELIVERY: Delivered at California PX location take-out points, including Victorville-Lugo midpoint and Vista Substation.

SCHEDULING: Unless otherwise instructed by SCWC, IEP will schedule energy based upon historical energy usage for the previous year's monthly load adjusted daily for current year representation of common weekend and week day loads. IEP's telephone numbers for real-time coverage of this agreement are (801) 568-2151 and 1-800-500-3260.

CURTAILMENTS: Curtailments are only permitted for system emergencies due to UNCONTROLLABLE FORCES (unanticipated events that prevent a Party from performing it's obligations at the Delivery Point to deliver or receive energy, which is not within the reasonable control and which by the exercise of all commercial efforts such Party has been unable to overcome or obtain or cause to be obtained substitute performance therefore). Curtailments shall not be made for economic reasons.

DAMAGES: If SELLER fails to deliver the Amount, where such failure was not excused by uncontrollable forces (as defined under Curtailments) or by Buyer, Seller shall be liable to Buyer for all such energy. The liability shall be calculated as the difference between 1) Buyer's reasonably incurred cost of replacing the comparable energy Seller failed to deliver (per megawatt-hour) and 2) the PRICE times the total Contract energy not delivered, to the extent that the calculation resulted in a positive number.

If BUYER fails to accept delivery of the Amount, where such failure was not excused by uncontrollable forces (as defined under Curtailments) or by Seller, Buyer shall be liable to Seller for all such energy. The liability shall be calculated as the difference between 1) the PRICE and 2) the revenue (per megawatt-hour) that Seller receives in selling the capacity and energy Buyer failed to accept times the total Contract energy not accepted, to the extent that the calculation resulted in a positive number. Neither party shall be liable to the other for any consequential, incidental, punitive, or special damages for failure to take or receive energy in accordance with the conditions stated above.

IEP CONTACTS:	Primary Contact	Secondary Contact
	Gaston Mejia	Layne Brown
	Short Term Trader	Director Power Operations
	Phone: (801) 568-2129	Phone: (801) 568-2150

GENERAL TERMS: This confirmation letter is provided pursuant to and in accordance with The Illinova-Southern California Water Company Enabling Agreement and constitutes part of and is subject to all of the terms and provisions of such Agreement. Terms used but not defined herein shall have the meanings ascribed to them in the Agreement.

April 9, 1999

**BILLING:** Billings and payment shall be in accordance with the terms specified in The Illinova-Southern California Water Company Enabling Agreement. Information for SCWC and IEP are provided below.

Billings shall be mailed to:  
 Southern California Water Company  
 630 E. Foothill Blvd.  
 San Dimas, CA 91733  
 Attention: Mr. Raymond P. Juels

Payments shall be mailed to:

Illinova Energy Partners, Inc.  
 6955 Union Park Center, Suite 300  
 Midvale, UT 84047  
 Attn: Jennifer Hughey

Payments over \$50,000 shall be wired to:

American National Bank  
 2000 South Naperville Road  
 Wheaton, IL 60187  
 ABA#: 071000770  
 Account#: 1818-752  
 For Illinova Energy Partners

#### ARTICLE II: DEFAULT AND FINANCIAL RESPONSIBILITY

Should a party have a reasonable basis to believe that the creditworthiness or financial responsibility of the other Party has become unsatisfactory at any time during which this Agreement is in effect, satisfactory security may be required before further deliveries are made. In the event either Party shall (i) Make an assignment or any general arrangement for the benefit of creditors; (ii) file a petition or otherwise commence, authorize, or acquiesce in the commencement of a proceeding or cause under any bankruptcy or similar law for the protection of creditors or have such petition filed or proceeding commenced against it; (iii) otherwise become bankrupt or insolvent (however evidenced); (iv) be unable to pay its debts as they fall due; or (v) default in its payment or performance of any obligation to the other Party under this agreement and fail to give adequate security for or assurance of its ability to perform its further obligation under this agreement within forty-eight (48) hours of a reasonable request by the other Party, then the other Party shall have the right, without prior notice, to withhold or suspend deliveries to Party, then the other Party shall have the right, without prior notice, to withhold or suspend deliveries or terminate this Agreement, in addition to any and all other remedies available the hereunder or pursuant to the law.

If the term and conditions shown above accurately reflect your understanding of our agreement, please indicate by signing and returning a facsimile copy of this Agreement to IEP at (801) 568-2103.

Sincerely,

Illinova Energy Partners

/s/ MARK V. ALLEN

-----  
 Mark V. Allen  
 Director, Regional Marketing

Southern California Water Company

/s/ JOEL DICKSON

-----  
 Mr. Joel Dickson  
 Vice President of Customer &  
 Operations Support

Mr. Joel Dickson  
Vice President of Customer Service and Operations Support  
Southern California Water Company  
630 E. Foothill Blvd.  
San Dimas, CA 91773

RE: SCHEDULING COORDINATION & REAL-TIME SERVICES AGREEMENT -- METERING &  
COMMUNICATIONS

Dear Mr. Dickson:

This represents an amendment to the Scheduling Coordination & Real-Time Services (Agreement) between Illinova Energy Partners, Inc. (IEP) and the Southern California Water Company for its Division Bear Valley Electric Services (Customer) dated April 7, 1999.

Pursuant to Section 8 Metering and Communications of the subject agreement, IEP is to provide Customer with the proposed costs for metering and communications prior to billing for such services. Accordingly, IEP has had a few visits to Bear Valley with one of its Meter Service Providers and designed a metering interrogation scheme that I believe is better than the prior configuration by our predecessor. In addition, this considers a permanent installation owned by Customer. The Exhibit A attached provides you with the detail of such installation, and the total cost for this service is a one-time charge of \$7,200 (billable in the first month in which the equipment was installed. IEP's monthly charge for metering interrogation is hereby quoted as \$35.00 per month.

If the above pricing meets with your approval, please so indicate by signing this Agreement in the space provided below and return a faxed copy to my attention at (801) 568-2103.

Sincerely,

/s/ MARK V. ALLEN

- - - - -  
Mark V. Allen  
Director, Regional Marketing  
California & Desert Southwest

Accepted as of this 13th day of May, 1999, for Southern California Water Company

/s/ JOEL A. DICKSON

- - - - -  
Mr. Joel Dickson  
Vice President of Customer & Support Services

BEAR VALLEY ELECTRIC SERVICE - METERING  
CONVERSION PROPOSAL

DESCRIPTION	QTY
DATA STAR, TYPE D-102,32K, 4-CHANNEL, SOLID STATE PULSE RECORDER - WITH TELEPHONE MODEM	2
PULSE SPLITTING RELAY - MERCURY WETTED WITH 3 RELAYS INSTALLED - 1 IN, 2 OUT	4
FUSE BLOCKS WITH DIRECT MOUNTING BASE AND TUBULAR SCREWS, SIMILAR OR EQUAL TO BUCHANAN CAT. #342 - INCLUDES TYPE 'KTK' OR 'KLM' FUSES	2
FASTENERS - CONNECTORS - TERMINALS - COUPLINGS	1
PROVIDE ALL LABOR NECESSARY TO INSTALL A COMPLETED METERING INSTALLATION	32
VEHICLE MILES TO AND FROM PROJECT	400
TECHNICIANS TRAVEL TIME FROM THEIR BASE TO THE JOB SITE AND RETURN	8
COSTS INCURRED FOR PERFORMING A SITE INSPECTION TO DETERMINE COMPONENTS NECESSARY TO COMPLETE PROJECT	4
PROJECT ENGINEERING AND COMPONENT ACQUISITION	3
TOTAL	\$7,200.00

[DIAGRAM OF SUB-METERING SPECIFICATION FOR "GOLDHILL" SUBSTATION]

[DIAGRAM OF SUB-METERING SPECIFICATION FOR "HARNISH" SUBSTATION]

Mr. Joel Dickson  
Vice President of Customer Service and Operations Support  
Southern California Water Company  
630 E. Foothill Blvd.  
San Dimas, CA 91773

RE: SCHEDULING COORDINATION & REAL-TIME SERVICES AGREEMENT

Dear Mr. Dickson:

This agreement for Scheduling Coordination & Real-Time Services (Agreement) sets forth the rates, terms, and conditions under which Illinova Energy Partners, Inc. (Illinova) agrees to provide twenty four (24) hour real-time services and Schedule Coordination to Southern California Water Company for its Division Bear Valley Electric Services (Customer). Illinova and Customer are hereinafter collectively referred to as "Parties" or individually as "Party", and hereby agree as follows:

1. TERM AND EFFECTIVE DATE

This Agreement shall become effective on Hour Ending 0100 (Pacific Prevailing Time) May 1, 1999, and shall remain in force and effect until April 30, 2002.

2. SERVICES TO BE PROVIDED BY ILLINOVA

Illinova will provide the following hourly services for Customer:

Illinova shall act as Scheduling Coordinator, in accordance with the requirements of the California Independent System Operator ("ISO") tariff, for Customer's loads at associated take-out points.

Develop Customer's pre-schedules based on load forecasts or load profiles provided by Customer, or Illinova under a separate Daily Purchasing Agreement dated April 7, 1999, or any applicable Utility Distribution Company ("UDC").

Coordinate pre-schedules with any applicable UDC, Independent System Operator ("ISO"), Power Exchange ("PX") and/or other suppliers.

Maintain Customer's schedules every hour. Each transaction will describe the delivery of power from a supplying party's control area (the generator), through all intermediate Purchase Sale Entities, to a receiving party's control area (load). A full path must be included detailing all entities that take title to the energy and all transmission paths.

Monitor schedules in effect during the term of the Agreement twenty-four (24) hours per day.

Confirm scheduled transactions as required. It is anticipated that schedules will be confirmed on a pre-scheduled basis within twenty-four (24) hours prior to the transaction. Illinova shall confirm schedule start and stop times with each entity Customer is purchasing from and delivering to.

If conditions require a modification to a pre-scheduled transaction, Illinova will, as directed, make sales and purchase decisions for Customer on a best effort basis to minimize losses, scheduling inconsistencies, and imbalances. In the event that such a service is requested Illinova will not be held liable for any losses that may be incurred due to its marketing transactions.

Provide Customer an hourly accounting of each day's transactions, including any changes to pre-scheduled transactions.

Use reasonable efforts to resolve any discrepancies with other parties.

### 3. SERVICES PROVIDED BY CUSTOMER.

Customer shall furnish Illinova, in a timely manner, with all information necessary for Illinova to carry out its responsibilities as Scheduling Coordinator in accordance with the ISO tariff, and shall carry out all directives from Illinova in performance of its role as Scheduling Coordinator in accordance with the ISO tariff.

If required by Illinova, Customer shall acquire and maintain, throughout the term of this agreement, a form and amount of credit protection acceptable to Illinova, not to exceed \$3,000,000, for the performance of this Agreement. This will include any additional charges by Illinova to maintain credit for Customer schedules with the ISO.

By 3:00 PM (Pacific Time) on every normal work day observed by both parties, Customer, or Illinova as Customer representative under separate Daily Energy Purchasing Agreement dated April 7, 1999, shall provide Illinova with an hourly listing of all changes to standard pre-scheduled transactions for the following day or days.

Provide Illinova with a twenty-four (24) hour emergency contact and pager number.

## 4. CHARGES

The charge for the services described above will be billed according to the following:

## 4.1 Illinova Charges

1. Initial setup charge (one time): Due and payable upon execution of this Agreement	\$7,000.00
2. Monthly Base Fee:	\$2,500.00
3. Customer shall pay a Monthly Variable Fee equal to. Monthly Variable Fee:	\$0.35/MWH
4. Monthly Administration and Billing Charge:	\$500.00
5. Illinova Re-marketing fee:	\$0.15/MWH

## 4.2 Imbalance Fees, Penalties, and Re-marketing

If Customer's actual energy usage exceeds the forecasted amount, Customer shall receive the ex-post price for this excess energy, and if such situation is expected to exist for any length of time, and Illinova can re-market this excess energy to other Scheduling Coordinators or counter-parties, Illinova will inform Customer of such an opportunity, and upon Customer concurrence, Illinova will re-market said excess. Customer will pay Illinova, the Energy Re-Marketing Fee listed above, for energy re-marketed. Customer shall also be responsible for any additional penalties or imbalance charges imposed by the ISO for imbalances due to Customer's energy usage deviating from the actual monthly energy amount defined by the forecast.

## 4.3 Pass-Through Costs

Unless specified under a separate power transaction between Customer and IEP, Customer shall be responsible for, and shall pay Illinova or any other provider of the service as applicable, for all charges imposed by the ISO, Automated Power Exchange (APX) and the California Power Exchange ("PX") in connection with the service provided under this Agreement, including but not limited to, charges for transmission (including Grid Management Charges, Grid Operations Charges, Ancillary Services Charges, Imbalance Energy Charges, Usage Charges, Wheeling Access Charges, Voltage Support and Black Start Charges, and Reliability Must-Run Charges, Losses, or Taxes imposed by the ISO), distribution, ancillary services (including costs for ancillary services purchased by Illinova from third parties for purpose of this Agreement), access charges, PX administration charges, whether such charges are billed directly to Customer or are billed to Illinova; provided, that Illinova shall be responsible for payment to the ISO of any imbalance charges as imposed by the ISO as a result of Illinova's failure to deliver energy to the ISO provided to Illinova by Customer. Any such imbalance charge for which Illinova is responsible shall be based on the difference between (i) the total energy scheduled by

Illinova to, and received by, the ISO and (ii) Illinova's total customer load within the Zone or Take-Out Points, as defined in the ISO tariff, where such imbalances occur. Where charges are billed to Illinova by the ISO, or PX in respect of service provided to Customer under this Agreement and to other scheduling clients, Illinova shall make appropriate allocations of such billed amounts to all scheduling clients inclusive of Customer.

#### 4.4 Losses

Illinova shall bill Customer for energy losses provided in accordance with delivery of Customer energy under this Agreement based on the hourly registrations of energy on the meters installed at the Customer Direct Access Account interconnection points, increased by the corresponding percentage points to account for losses between the interconnection point or points at which Illinova delivers or schedules Customer supplied energy deliveries to the ISO Controlled Grid and the Customer interconnection points. If the amount of energy scheduled or delivered by Illinova to the interconnection point or points on the ISO Controlled Grid does not equal the amount of energy registered on the meters at the Customer interconnection points plus the appropriate loss factor in an hour, the variance shall be reconciled and billed in accordance with Section 7 of this Agreement.

#### 7. PAYMENT

Illinova will submit its invoices to Customer on a monthly basis. All billings to Customer will be sent to:

Mr. Raymond P. Juels  
Southern California Water Company  
630 E. Foothill Blvd.  
San Dimas, CA 91773

or to such address as Customer may specify by written notice given as provided herein.

IEP and SCWC will develop an acceptable invoicing format and include quarterly fuel mix for supply, as can be determined with suppliers. Invoices should include line items to clearly identify charges herein.

Invoices submitted by Illinova to Customer shall be due and payable 20 days after the date of the invoice. Customer agrees to pay interest at the rate of 1.5% per month, or the maximum rate as permitted by law, on any invoiced amounts which are not paid on or before the due date, until the date of payment.

Payments to Illinova shall be  
mailed to:  
Illinova Energy Partners, Inc.  
6955 Union Park Center, Suite 300  
Midvale, UT 84047  
Attn: Jennifer Hughey

Payments over \$50,00 shall be  
wired to:  
American National Bank  
2000 South Naperville Road  
Wheaton, IL 60187  
ABA #: 071000770  
Account #: 1818-0752  
For Illinova Energy Partners account

Illinova hereby represents that its bills will be based upon some estimated amounts. For example, ISO charges will be billed to Scheduling Coordinators, such as Illinova, on a quarterly basis. Accordingly, Illinova shall bill, or credit, for any adjustments to past billings for estimated amounts being reconciled with actual amounts.

All correspondence with regard to payment shall be made to the same address.

#### 8. METERING & COMMUNICATION

Customer shall be responsible for the cost of establishing and maintaining communication equipment necessary to conduct the scheduling coordination services for energy management pursuant to this agreement. Such costs shall include meters, monthly communication & maintenance costs and other necessary equipment. Such costs shall be discussed and agreed to before they are actually incurred.

#### 9. AUDIT

Either Party, at its own expense, shall have the right, at all reasonable times, to review and audit the books, records, documents of the other Party, directly pertaining to the billing and power delivery data required to administer this Agreement. The foregoing shall not be construed to permit either Party to conduct a general audit of the other Party's records. Information obtained by either Party's representatives in examining the other Party's applicable records to verify such billings and power delivery data shall not be disclosed to third parties without prior written consent of the audited Party, or unless in response to compulsory judicial or regulatory processes and after giving the other Party as much advance written notice as possible, with such time not to be less than (15) days. The right to audit shall extend for a period of one (1) year following the date of each payment. It will be incumbent upon the Parties to retain all necessary records and documentation during this audit period.

#### 10. FORCE MAJEURE

Neither Party shall be liable for any delay or failure in performance of any part of this Agreement (other than obligations to pay money) from any cause beyond its reasonable control, including but not limited to flood, fire, lightning, epidemic, quarantine restriction, war, sabotage, act of a public enemy whether foreign or domestic, earthquake, insurrection, riot, civil disturbance, strike, work stoppage caused by jurisdictional or similar disputes, restraint by court order or public authority, action or non-action by or inability to obtain necessary authorization or approval from any governmental authority, or failure or inability of the ISO or the UDC to accept energy from Illinova or to deliver energy to Customer in amounts received from Illinova, or any combination of these causes, whether affecting the Party or the Party's suppliers, which by the exercise of due diligence and foresight such Party could not reasonably have been expected to avoid and which by the exercise of due diligence the Party has been unable to overcome. The Party claiming a force majeure condition shall give the other Party such notice of the condition as is reasonable under the circumstances. Upon notice of the force majeure condition being provided, the obligations of the Party invoking the force majeure, to the extent they are affected by the force majeure condition, shall be suspended during the continuation of such condition and

shall, so far as is possible, be remedied with all reasonable dispatch.

#### 11. INDEMNIFICATION

11.1 To the fullest extent permitted by law, and subject to the limitations set forth in Section 21, "Limitation of Liability to Amount of Direct Damages", of this Agreement, each Party (the "Indemnifying Party") shall indemnify and hold harmless the other Party, its parent company or companies and affiliates, and their shareholders, officers, directors, employees, agents, servants, and assigns (collectively, the "Indemnified Party"), and at the Indemnified Party's option, the Indemnifying Party shall defend the Indemnified Party from and against any and all claims and liabilities for losses, expenses, damage to property, injury to or death of any person, including, but not limited to, the Indemnified Party's employees and its parent company's and affiliates' employees, subcontractors and subcontractors' employees, or any other liability incurred by the Indemnified Party, which shall include reasonable attorney fees, caused wholly or in part by any negligent, grossly negligent or willful act or omission by the Indemnifying Party, its officers, directors, employees, agents or assigns arising out of this Agreement, except to the extent such claim, liability, loss, expense, damage to property, injury or death is caused by any negligent, grossly negligent or willful act or omission of the Indemnified Party.

11.2 If any claim covered by Section 11.1 is brought against the Indemnified Party, then the Indemnifying Party shall be entitled to participate in, and unless in the opinion of counsel for the Indemnified Party a conflict of interest between the Parties may exist with respect to such claim, assume the defense of such claim, with counsel reasonably acceptable to the Indemnified Party. Even if the Indemnifying Party assumes the defense of the Indemnified Party pursuant to this subsection b, the Indemnified Party, at its sole option, may participate in the defense, at its own expense, with counsel of its own choice without relieving the Indemnifying Party of any of its obligations hereunder.

11.3 The Indemnifying Party's obligation to indemnify under this Section 10 shall survive termination of this Agreement, and shall not be limited in any way by any limitation on the amount or type of damages, compensation or benefits payable by or for the Indemnifying Party under any statutory scheme, including, without limitation, under any worker's compensation acts, disability benefit acts or other employee benefit acts.

#### 12. GOVERNING LAW

This Agreement shall be governed by, and interpreted and construed in accordance with, the laws of the State of California, and shall exclude any choice of law rules that direct the application of the laws of another jurisdiction, irrespective of the place or places of execution or of the order in which signatures of the parties are affixed or of the place or places of performance; provided, that any provision of this Agreement that is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") shall be governed by, and interpreted and construed in

accordance with, the regulations of the FERC and such other laws of the United States as are applicable to that provision.

#### 13. AMENDMENT

This Agreement may be modified only upon mutual written agreement of the Parties.

#### 14. WAIVER

Any waiver at any time by either Party with respect to any of its rights under this Agreement or the failure of a Party to insist on the performance by the other Party of an obligation under this Agreement shall not be deemed an amendment or modification of this Agreement and shall not be deemed a waiver of such right, or acquiescence to non-performance of such obligation, during the remainder of the term of this Agreement.

#### 15. PROPRIETARY INFORMATION

Illinova considers pricing information contained in this Agreement to be proprietary and confidential. Disclosure of any pricing information contained in this Agreement shall require the prior written consent of Illinova. Customer considers all information provided to Illinova under Section 3 of this Agreement and all information that Illinova obtains in carrying out the services described in Section 2 of this Agreement to be proprietary and confidential. Disclosure or use of any of the aforementioned information contained in this Agreement other than to carry out the services outlined in Section 2 of this Agreement shall require the prior written consent of Customer.

#### 16. ASSIGNMENT AND DELEGATION

16.1 Neither Party shall assign any of its rights or obligations under this Agreement except with the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed. No assignment of any right or obligation under this Agreement shall relieve the assigning Party of any of its obligations under this Agreement until such obligations have been assumed in writing by the assignee. When duly assigned in accordance with the preceding two sentences, any obligation so assigned shall be binding upon the assignees, and the assignor shall be relieved of its rights and obligations that have been duly assigned. Any assignment in violation of this Section 16.1 shall be void.

16.2 Notwithstanding the provisions of subsection 16.1, either Party may delegate any of its duties under this Agreement to an agent or subcontractor, provided that the delegating Party shall remain fully responsible for performance of any delegated duties, shall serve as the point of contact between the delegatee and the other Party, and shall provide the other Party with 30 days prior written notice of any such delegation, which notice shall contain such information about the delegatee as the other Party shall reasonably require.

**17. AUTHORITY TO EXECUTE AGREEMENT**

Each Party acknowledges that it has read this Agreement and that the Party fully understands its rights and obligations under this Agreement. Each Party further acknowledges that it has had an opportunity to consult with an attorney of its own choosing to explain the terms of this Agreement and the consequences of signing it.

Each Party represents and warrants (i) that it has the full power and authority to execute and deliver this Agreement and to perform its terms, (ii) that execution, delivery and performance of this Agreement have been duly authorized by all necessary corporate or other action by such Party, and do not conflict with the Party's articles of incorporation or by-laws, or cause a default under any contract or other agreement to which such Party is subject, and (iii) that this Agreement constitutes such Party's legal, valid and binding obligation and is enforceable against such Party in accordance with its terms. Each person executing this Agreement for a Party represents and warrants that he or she has the authority to bind the Party on whose behalf he or she is executing this Agreement.

**18. CONSTRUCTION SHALL NOT BE FOR OR AGAINST DRAFTER**

No provision of this Agreement shall be construed or interpreted for or against any Party because that Party drafted or caused its legal representative to draft the provision.

**19. DISPUTE RESOLUTION PROCEDURES**

Any dispute between the Parties concerning the provisions, interpretation or implementation of this Agreement which remains unresolved for a period of six months shall, upon written notice given by one Party to the other Party, be forwarded to Customer's Chief Financial Officer and to Illinova's Vice President of the Western Region ("Executive" or "Executives"), who shall meet within 30 days following the date of the notice, or at such other time as agreed upon by the Executives, to discuss and attempt to resolve the dispute. Any resolution agreed upon by the Executives shall be binding upon the Parties. A resolution reached by the Executives shall not be effective until set forth in a writing signed by both Executives. If the Executives cannot resolve the dispute within 30 days following their initial meeting either Party may pursue any remedy available to the Party at law, in equity or under this Agreement to resolve the dispute. If the title of either Executive position referred to in this Section 19 is eliminated or changed, or if this Agreement is assigned pursuant to Section 16, the Party subject to the change, or the assignee of such Party, shall substitute a comparable executive for the purpose of this Section 19 and shall promptly notify the other Party in writing.

Each Party shall bear its own attorney fees and other costs incurred in connection with any dispute, except as otherwise (i) agreed by the Parties in the resolution of the dispute, (ii) ordered

by a court or administrative agency of competent jurisdiction, or (iii) determined by the arbitrator or other neutral in any alternative dispute resolution process used by the Parties, in accordance with the rules and procedures adopted and agreed to by the Parties for purposes of that process.

#### 20. ENTIRE AGREEMENT

This Agreement, including all attachments hereto and agreements contemplated herein, constitutes the entire agreement and understanding between the Parties as to the subject matter of this Agreement, and merges and supersedes all prior oral or written agreements, understandings, commitments, representations and discussions between the Parties. The Agreement may be amended, modified or supplemented only in accordance with Section 13 or Section 16 of this Agreement.

#### 21. LIMITATION OF LIABILITY TO AMOUNT OF DIRECT DAMAGES

Each Party's liability to the other Party for any loss, cost, claim, injury, liability or expense, including any reasonable attorney fees to which the other Party is entitled, relating to or arising from an act or omission in the Party's performance of this Agreement, shall be limited to the amount of direct damage actually incurred. In no event shall either Party be liable to the other Party for any indirect, special, consequential or punitive damages of any kind whatsoever, whether in contract, tort or strict liability.

#### 22. LIMITATION ON TIME TO MAKE CLAIMS

With the exception of claims for indemnity under Section 11, "Indemnification", of this Agreement, no claims may be made under this Agreement, or submitted to dispute resolution pursuant to Section 19, "Dispute Resolution Procedures", of this Agreement, more than three years after the date the claim accrued. The Parties agree that failure to make any claim falling within the scope of this Section 22 within three years shall bar any cause of action. Provided, however, that claims for indemnity under Section 11, "Indemnification", of this Agreement shall not be limited by the three year limitation of this Section, but shall be governed by the applicable statute of limitations.

#### 23. NOTICES AND DEMANDS

Unless another means of notice is expressly provided for in another Section of this Agreement, all notices and demands given or made by a Party under this Agreement shall be sent by the sending Party by facsimile with a copy sent, by United States Mail, to the designated recipient of the receiving Party at the addresses set forth below.

to SCWC:

Southern California Water Company  
630 E. Foothill Blvd.  
San Dimas, CA 91773

Attention: Mr. Raymond P. Juels

If to Illinova:

Illinova Power Marketing, Inc.  
Attention: Jennifer Hughey, Controller  
Union Park Center, Suite 300  
Midvale, Utah 84047  
Fax No.: (801) 568-2104

A Party may, by notice to the other Party provided in accordance with this Section, change the name of designated recipient, address, and facsimile number to which notices and demands shall thereafter be sent. Any notice provided pursuant to this Section shall be effective upon confirmation of receipt of the sending party's facsimile, if between the hours of 8:00 A.M. and 4:00 P.M. Pacific Time, and at 8:00 A.M. Pacific Time on the next business day if at any other time.

#### 24. REMEDIES CUMULATIVE

Except as expressly provided otherwise in this Agreement, all remedies in this Agreement, including the right of termination, are cumulative, and use of any remedy shall not preclude any other remedy in this Agreement.

#### 25. SECTION HEADINGS

The headings placed at the start of each Section of this Agreement are solely for the convenience of reference of the Parties, are not and shall not be deemed to be a part of this Agreement, shall in no way define, modify, or restrict any of the terms or provisions of this Agreement, and shall not be used in any manner in the interpretation or construction of this Agreement.

#### 26. TAXES

Unless expressly provided otherwise in the Section or Sections of this Agreement establishing charges, the charge or charges specified in this Agreement for services and products provided hereunder do not include any amounts in respect of any State or local taxes that are assessed, imposed or owing as a function of the revenues, billings, purchase price, deliveries or usage under this Agreement. Illinova shall add the amount of any such taxes that are applicable to services or products for which Illinova is rendering an invoice to Customer to the amount of the billing stated on such invoice, with such amount to be calculated at the applicable rate or rates of tax. Customer shall be responsible for payment of any such taxes, and for the filing of returns, with respect to any tax not added to Customer's invoice by Illinova. Customer shall also be responsible to pay any penalties, interest or other charges resulting from Customer's failure to timely pay any such tax, or resulting from Illinova's failure to timely pay any such tax due to Customer's failure to timely provide Illinova with information necessary to determine or compute such tax or file a return.

27. THIRD-PARTY BENEFICIARIES

The provisions of this Agreement are for the benefit of the Parties and not for any other person or third party beneficiary. The provisions of this Agreement shall not impart rights enforceable by any person, firm or organization other than a Party, or a successor or assignee of a Party, to this Agreement.

28. SEVERABILITY

Should any provision of this Agreement for any reason be declared invalid or unenforceable by final and applicable order of any court or regulatory body having jurisdiction, such decision shall not affect the validity of the remaining portions, and the remaining portions shall remain in force and effect as if this Agreement had been executed without the invalid portion. This Agreement is subject to review by the California Public Utilities Commission "CPUC". The Agreement may be terminated if disapproved by the CPUC: however, SCWC shall be liable for any economic damages to IEP with respect to any power transactions made or service cost incurred under this Agreement with IEP.

29. TIME OF ESSENCE

The Parties agree that time is of the essence for all portions of this Agreement.

If the above accurately reflects your understanding of the agreement reached by representatives of Illinova and Customer, please so indicate by signing both originals of this Agreement in the space provided below and return one fully executed original to me.

Sincerely,

/s/ MARK V. ALLEN

-----  
Mark V. Allen  
Director, Regional Marketing  
California & Desert Southwest

Accepted as of this 16th day of April, 1999, for Southern California Water Company

/s/ JOEL DICKSON

-----  
Mr. Joel Dickson  
Vice President of Customer & Support Services

AMENDED AND RESTATED CHANGE IN CONTROL AGREEMENTS  
BETWEEN AMERICAN STATES WATER COMPANY,  
SOUTHERN CALIFORNIA WATER COMPANY AND CERTAIN EXECUTIVES,  
DATED AS OF OCTOBER 25, 1999

## AMENDED AND RESTATED CHANGE-IN-CONTROL AGREEMENT

This Amended and Restated Change-in-Control Agreement (the "Agreement") is dated as of October 25, 1999, is entered into by and among McClellan Harris III (the "Executive"), American States Water Company (the "Company") and its wholly owned subsidiary, Southern California Water Company, a California corporation ("SCW"), and amends and restates in its entirety the Change-in-Control Agreement dated as of October 27, 1998 among the Executive, the Company and SCW.

## RECITALS

The Company considers it essential to the best interest of the Company and its shareholders that the Executive be encouraged to remain with the Company and SCW and continue to devote full attention to the Company's business notwithstanding the possibility, threat or occurrence of a Change in Control (as defined in Section 3). The Company believes that it is in the best interest of the Company and its shareholders to reinforce and encourage the continued attention and dedication of the Executive and to diminish inevitable distractions arising from the possibility of a Change in Control. Accordingly, to assure the Company that it will have the Executive's undivided attention and services notwithstanding the possibility, threat or occurrence of a Change in Control, and to induce the Executive to remain in the employ of the Company and SCW, and for other good and valuable consideration, the Board of Directors of the Company and SCW has, at the recommendation of the Company's Compensation Committee, caused the Company and SCW to enter into this Agreement.

## TERMS AND CONDITIONS

The Executive, the Company and SCW hereby agree to the following terms and conditions:

## 1. TERM OF AGREEMENT

If a Change in Control (as defined in Section 3) occurs on or before the expiration date of this Agreement and while the Executive is still an employee of the Company or SCW, then this Agreement will continue in effect for two years from the date of such Change in Control and, if the Executive's employment with the Company or SCW is terminated within such two-year period, this Agreement shall thereafter continue in effect until all of the obligations of the Company and SCW under this Agreement shall have been fulfilled. If no Change in Control occurs on or before December 31, 2000, this Agreement shall expire; provided, however that this Agreement shall be automatically extended for an additional two years to December 31, 2002 if (i) a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or SCW on or before the expiration date, or (ii) the Company and SCW have not delivered to you or you shall have not delivered to the Company and SCW written notice at least 60 days prior to the expiration date that such expiration date shall not be so extended. This Agreement shall continue to be automatically extended for an additional two-year period and each succeeding two-year period if a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or SCW or the Company, SCW or you have failed to give notice by the time and in the manner described in this Section 1.

## 2. CHANGE IN CONTROL DATE

The "Change in Control Date" shall mean the first date during the term of this Agreement on which a Change in Control (as defined in Section 3) occurs; provided, however, that if a Change in Control occurs and if the Executive's employment with the Company or SCW is terminated after approval by the Board of Directors of the Company or SCW of a plan or agreement for a Change in Control but prior to the date on which the Change in Control occurs, the "Change in Control Date" shall mean the date immediately preceding the date of such termination.

## 3. CHANGE IN CONTROL

A "Change in Control" shall mean any of the following events:

(a) the dissolution or liquidation of either the Company or SCW, unless its business is continued by another entity in which holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(b) any sale, lease, exchange or other transfer (in one or a series of transactions) of all or substantially all of the assets of either the Company or SCW, unless its business is continued by another entity in which holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(c) any reorganization or merger of the Company or SCW, unless the holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing or surviving entity's voting securities immediately after the event;

(d) an acquisition by any person, entity or group acting in concert of more than 50% of the voting securities of the Company or SCW, unless the holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the acquirer's voting securities immediately after the acquisition; or

(e) a change of one-half or more of the members of the Board of Directors of the Company or SCW within a twelve-month period, unless the election or nomination for election by shareholders of new directors within such period constituting a majority of the applicable Board was approved by the vote of at least two-thirds of the directors then still in office who were in office at the beginning of the twelve-month period.

#### 4. EFFECTIVE PERIOD

For the purpose of this Agreement, the "Effective Period" is the period commencing on the Change in Control Date and ending on the date this Agreement terminates.

#### 5. TERMINATION OF EMPLOYMENT

(a) Death or Disability: The Executive's employment shall terminate automatically upon the Executive's death. If the Disability (as defined below) of the Executive occurs during the Effective Period, the Company or SCW may give the Executive written notice of their intention to terminate the Executive's employment. In such event, the Executive's employment with the Company or SCW shall terminate effective on the 30th day after receipt of

such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of his or her duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from his or her duties with the Company or SCW on a full-time basis for 180 consecutive business days as a result of a physical or mental condition which prevents the Executive from performing the Executive's normal duties of employment and which is (i) determined to be total and permanent by a physician selected by the Company or SCW or their insurers and acceptable to the Executive or the Executive's legal representative and/or (ii) entitles the Executive to the payment of long-term disability benefits from the Company's or SCW's long-term disability plan commencing no later than the Disability Effective Date.

(b) Cause: The Company or SCW may terminate the Executive's employment other than for Cause or Disability during the Effective Period as provided in Section 6(a). The Company or SCW may also terminate the Executive's employment during the Effective Period for Cause. For purposes of this Agreement, "Cause" shall be limited to the following:

(i) the Executive's failure to render services to the Company or SCW where such failure amounts to gross neglect or gross misconduct of the Executive's responsibility and duties,

(ii) the Executive's commission of an act of fraud or dishonesty against the Company or any affiliate of the Company, or

(iii) the Executive's conviction of a felony or other crime involving moral turpitude.

(c) Good Reason: The Executive's employment may be terminated by the Executive during the Effective Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the Change in Control Date, or any other action by the Company or SCW which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company or SCW, as the case may be, promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company or SCW to reappoint the Executive to a position held by the Executive on the Change in Control Date, except as a result of the termination of the Executive's employment by the Company or SCW for Cause or Disability, the death of the Executive, or the termination of the Executive's employment by the Executive other than for Good Reason;

(iii) reduction by the Company or SCW in the Executive's base salary as in effect on the date hereof or as the same may be increased from time-to-time;

(iv) the taking of any action by the Company or SCW (including the elimination of benefit plans without providing substitutes therefore or the reduction of the Executive's benefits thereunder) that would substantially diminish the aggregate value of the Executive's incentive awards and other fringe

benefits including the executive benefits and perquisites from the levels in effect prior to the Change in Control Date;

(v) the Company's or SCW's requiring the Executive to be based at any office or location which increases the distance from the Executive's home to the office location by more than 35 miles from the distance in effect as of the Change in Control Date;

(vi) any failure by the Company or SCW to comply with and satisfy Section 11(c) of this Agreement.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION

(a) Good Reason, Other Than for Cause or Disability: If the Company or SCW shall terminate the Executive's employment other than for Cause or Disability during the Effective Period, or the Executive shall terminate employment for Good Reason during the Effective Period, the Company and SCW agrees, subject to Section 8, to make the payments and provide the benefits described below:

(i) The Company and/or SCW shall pay to the Executive in a cash lump sum within 10 days from the date of the Executive's termination of employment an amount equal to the product of (A) and (B), where (A) is 2.99 and (B) is the Executive's annual base salary at the highest of the rate in effect at any time during the three years preceding the date of termination.

(ii) The Company and/or SCW shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the sum of (A) the Executive's base salary through the date of termination, plus (B) any

compensation previously deferred by the Executive (together with any accrued earnings or interest thereon), plus (C) any accrued vacation pay, in each case to the extent not theretofore paid (the amounts referred to in this paragraph (ii) are hereinafter referred to as the "Accrued Obligations").

(iii) The Company and/or SCW shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the excess of (A) over (B), where (A) is equal to the single sum actuarial equivalent of what would be the Executive's accrued benefits under the terms of the Southern California Water Company Pension Plan (or any successor thereto), including any supplemental retirement plan providing additional pension benefits, (hereinafter together referred to as the "Pension Plan") at the time of the Executive's termination of employment, without regard to whether such benefits are "vested" thereunder, if the Executive were credited with an additional two years of continuous service after the termination of Executive's employment with the Company or SCW at the Executive's highest annual rate of compensation covered by such Pension Plan within the three years preceding the date of the termination of the Executive's employment with the Company or SCW and (B) is equal to the single sum actuarial equivalent of the Executive's accrued benefits under the Pension Plan at the time of the Executive's termination of employment. The payment under this paragraph (iii) shall not extinguish any rights the Executive has to benefits under the Pension Plan. For purposes of this paragraph, "actuarial equivalent" shall be determined using the actuarial assumptions used under the

Pension Plan for determining the actuarial equivalence of different annuity forms of benefits. In no event shall the additional two years of continuous service referred to above cause the Executive to be deemed to be older than the Executive's actual age for any purpose under this Agreement.

(iv) For two years after the Executive's date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company and SCW shall continue to provide welfare benefits and fringe benefits and other perquisites to the Executive and/or the Executive's family at least equal to those which would have been provided to them if the Executive's employment had not been terminated (in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliates applicable generally to other peer executives and their families immediately preceding the date of the Executive's termination of employment); provided, however, that if the Executive becomes employed by another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for any retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until two years after the date of termination of employment and to have retired on the last day of such period. Following the

period of continued benefits referred to in this subsection, the Executive and the Executive's family shall be given the right provided in Section 4980B of the Internal Revenue Code of 1986 (the "Code") to elect to continue benefits in all group medical plans. In the event that the Executive's participation in any of the plans, programs, practices or policies of the Company or SCW referred to in this subsection is barred by the terms of such plans, programs, practices or policies, the Company and/or SCW shall provide the Executive with benefits substantially similar to those which the Executive would be entitled as a participant in such plans, programs, practices or policies. At the end of the period of coverage, the Executive shall have the option to have assigned to the Executive, at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company or SCW and relating specifically to the Executive.

(v) The Company and/or SCW shall enable the Executive to purchase, at the end of the Effective Period, the automobile, if any, provided by the Company and/or SCW for the Executive's use at the time of the Executive's termination of employment at the wholesale value of such automobile at such time, as shown in the current addition of the National Auto Research Publication Blue Book. At the Executive's election, the Executive may retain any existing club memberships of the Executive purchased by the Company or SCW upon reimbursement to the Company or SCW, as the case may be, of any membership costs paid by the Company or SCW.

(vi) To the extent not theretofore paid or provided, the Company and/or SCW shall timely pay or provide the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company and its affiliates (such other amounts and benefits being hereinafter referred to as "Other Benefits") in accordance with the terms of such plan, program, policy, practice, contract or agreement.

(vii) The Executive shall be entitled to interest on any payments not paid on a timely basis as provided in this Section 6(a) at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

(b) Death: If the Executive's employment is terminated by reason of the Executive's death during the Effective Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a cash lump sum within 10 days of the date of the Executive's death.

(c) Disability: If the Executive's employment is terminated by reason of the Executive's Disability during the Effective Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a cash lump sum within 30 days of the Executive's termination of employment.

(d) Cause, Other than for Good Reason: If the Executive's employment shall be terminated for Cause during the Effective Period or, if the Executive voluntarily terminates employment during the Effective Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and any benefits payable to Executive under a plan, policy, practice, etc., referred to in Section 7 below. Accrued Obligations shall be paid to the Executive in a cash lump sum within 60 days of the Executive's termination of employment.

#### 7. NON-EXCLUSIVITY OF RIGHTS

Subject to Section 8, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliates and for which the Executive may qualify, nor, subject to Sections 8 and 20, shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliates. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company or any of its affiliates at or subsequent to the date of termination of the Executive's employment shall be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

#### 8. LIMITATION ON BENEFITS

Notwithstanding anything in this Agreement to the contrary, if any payments or benefits to be made to or for the Executive's benefit, whether pursuant to this Agreement or otherwise, whether by the Company, SCW or another entity or person, would not be deductible

by the Company or SCW due to limitations imposed by Section 162(m) of the Code, then such payments or benefits shall be deferred to the extent necessary until such time as such payments would be deductible under Section 162(m) of the Code. Either the Company, SCW or the Executive may request a determination as to whether any payments would be subject to limitations on deductibility under Section 162(m) of the Code and, of so requested, such determination shall be made by independent legal counsel selected by the Company or SCW and approved by the Executive. Payment may be delayed pending any such determination, provided that the Executive shall be entitled to interest on any delayed payment at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code. The Executive shall also be entitled to interest on any payments deferred as a result of the limitations on deductibility under Section 162(m) of the Code at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

9. PARACHUTE PAYMENTS

(a) Gross-Up Payment. In the event that any payment or distribution by the Company or SCW to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments under this Section 9(a)) (a "Payment") is determined to be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company and SCW shall pay to the Executive an additional payment (a "Gross-Up Payment") in

an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such Payments.

(b) Accounting Firm. Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen LLP or such other certified public accounting firm as may be designated by Executive and which is satisfactory to the Company and SCW (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and SCW and to Executive within 15 business days after such determinations are requested by Executive, the Company or SCW. All fees and expenses of the Accounting Firm shall be borne solely by the Company and SCW. The Company and SCW shall be jointly and severally obligated to pay any Gross-Up Payment, as determined pursuant to this Section 9(b), to Executive within five days after the receipt by the Company and/or SCW of the Accounting Firm's determination. Any determination by the Accounting Firm shall be final and binding on the Company, SCW and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company and/or SCW should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company and SCW exhausts its remedies pursuant to Section 9(c) and Executive thereafter is required to make a payment of

any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and the Company and SCW shall be jointly and severally obligated to pay any such Underpayment promptly to or for the benefit of Executive.

(c) Internal Revenue Service Claims. Executive shall notify the Company and SCW in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company and/or SCW of a Gross-Up Payment. Executive shall give such notice as soon as practicable but no later than ten business days after Executive is informed in writing of such claim and shall apprise the Company and SCW of the nature of such claim, and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company and SCW (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company or SCW notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) Give the Company and SCW any information reasonably requested by either of them relating to such claim,

(ii) Take such action in connection with contesting such claim as the Company or SCW shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company or SCW,

(iii) Cooperate with the Company and SCW in good faith in order to contest such claim effectively, and

(iv) Permit the Company and SCW to participate in any proceedings relating to such claim;

provided, however, that the Company and SCW shall be jointly and severally obligated to bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company and SCW shall control all proceedings taken in connection with such contests and, at their sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at their sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company and SCW shall determine; provided, however that if the Company or SCW directs Executive to pay such claim and sue for a refund, the Company or SCW, as the case may be, shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount.

Furthermore, the control by the Company and/or SCW of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Refunds. If, after the receipt by Executive of an amount advanced by the Company and/or SCW pursuant to Section 9(c), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to compliance by the Company and SCW with the requirements of Section 9(c)) promptly pay to the Company and SCW the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company and/or SCW pursuant to Section 9(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company or SCW does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

#### 10. FULL SETTLEMENT

The obligation of the Company and SCW to make the payments provided for in this Agreement and otherwise to perform their obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company or SCW may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to

the Executive under any of the provisions of this Agreement and, except as provided in Section 6(a)(iv), such amounts shall not be reduced whether or not Executive obtains other employment.

#### 11. SUCCESSORS

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company, SCW and their successors and assigns.

(c) The Company and SCW will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of their business and/or assets to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company or SCW would be required to perform it if no such succession had taken place. As used in this Agreement, the "Company" shall mean the Company as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise, and "SCW" shall mean SCW as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

#### 12. ARBITRATION

(a) Because it is agreed that time will be of the essence in determining whether any payments are due to the Executive under this Agreement, the Executive may submit any claim for payment under this Agreement or dispute regarding the interpretation of this Agreement to arbitration. This right to select arbitration shall be solely that of the Executive, and the Executive may decide whether or not to arbitrate in his or her discretion. The "right to select arbitration" is not mandatory on the Executive, and the Executive may choose in lieu thereof to bring an action in an appropriate civil court. Once an arbitration is commenced, however, it may not be discontinued without the mutual consent of both parties to the arbitration. During the lifetime of the Executive only he or she can use the arbitration procedure set forth in this section.

(b) Any claim for arbitration may be submitted as follows: If the Executive disagrees with the Company or SCW regarding the interpretation of this Agreement and the claim is finally denied by the Company or SCW in whole or in part, such claim may be filed in writing with an arbitrator of the Executive's choice who is selected by the method described in the next three sentences. The first step of the selection shall consist of the Executive submitting a list of five potential arbitrators to the Company and SCW. Each of the five arbitrators must be either (1) a member of the National Academy of Arbitrators located in the State of California or (2) a retired California Superior Court or Appellate Court judge. Within two weeks after receipt of the list, the Company and SCW shall select one of the five arbitrators as the arbitrator for the dispute in question. If the Company and SCW fail to select an arbitrator in a timely manner, the Executive shall then designate one of the five arbitrators as the arbitrator for the dispute in question.

(c) The arbitration hearing shall be held within thirty days (or as soon thereafter as possible) after the picking of the arbitrator. No continuance of the hearing shall be allowed without the mutual consent of the Executive and the Company. Absence from or nonparticipation at the hearing by either party shall not prevent the issuance of an award. Hearing procedures which will expedite the hearing may be ordered at the arbitrator's discretion, and the arbitrator may close the hearing at his or her discretion when sufficient evidence to satisfy issuance of an award has been presented.

(d) The arbitrator's award shall be rendered as expeditiously as possible and in no event later than thirty days after the close of the hearing. In the event the arbitrator finds that the Company or SCW has breached this Agreement, he or she shall order the Company or SCW, as the case may be, to immediately take the necessary steps to remedy the breach. The award of the arbitrator shall be final and binding upon the parties. The award may be enforced in any appropriate court as soon as possible after it is rendered. If an action is brought to confirm the award, the Company, SCW and the Executive agree that no appeal shall be taken by either party from any decision rendered in such action.

(e) The Company and SCW will be considered the prevailing party in a dispute if the arbitrator determines that neither the Company nor SCW has breached this Agreement. Otherwise, the Executive will be considered the prevailing party. In the event that the Company and SCW are the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (excluding any attorneys' fees incurred by the Company or SCW) including stenographic reporter, if employed, shall be paid by the Executive. In the event that Executive is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (including all

attorneys' fees incurred by the Executive), including the fees of a stenographic reporter if employed, shall be paid by the Company and SCW.

13. GOVERNING LAW

The laws of California shall govern the validity and interpretation of this Agreement, with regard to conflicts of laws.

14. CAPTIONS

The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

15. AMENDMENT

This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

16. NOTICES

All notices and other communications regarding this Agreement shall be in writing and shall be hand delivered to the other party or sent by prepaid registered or certified mail, return receipt requested, addressed as follows:

If to the Executive:  
-----  
-----  
-----

If to the Company: American States Water Company  
630 East Foothill Boulevard  
San Dimas, CA 91773  
Attn: Secretary

If to SCW: Southern California Water Company  
630 East Foothill Boulevard  
San Dimas, CA 91773

Attn: Secretary

or to such other address as either party shall have furnished to the other in writing. Notice and communications shall be effective when actually received by the addressee.

17. SEVERABILITY

The lack of validity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

18. WITHHOLDING TAXES

The Company and SCW may withhold required federal, state, local or foreign taxes from any amounts payable under this Agreement.

19. NO WAIVER

The Executive's, the Company's or SCW's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive, the Company or SCW may have under this Agreement, including, without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right under this Agreement.

20. AT-WILL EMPLOYMENT

The Executive, the Company and SCW acknowledge that, except as may otherwise be provided under any other written agreement between the Executive, the Company and SCW, the employment of the Executive by the Company and SCW prior to the Change in Control Date is "at will" and, prior to the Change in Control Date, the Executive's employment may be terminated by either the Executive or the Company or SCW, as the case may be, at any

time, in which case the Executive shall have no further rights under this Agreement. From and after the Change in Control Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

21. COUNTERPARTS

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same Agreement.

21. JOINT AND SEVERAL LIABILITY

The obligation of the Company and SCW to make payments hereunder shall be joint and several.

22. ALLOCATION OF PAYMENTS

As between the Company and SCW, any payments to be made by the Company and/SCW hereunder shall be allocated between the Company and SCW on the same basis as the payment of salary and benefits of the Executive were allocated between the Company and SCW immediately prior to the Change in Control Date.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first written above in Los Angeles, California.

AMERICAN STATES WATER COMPANY

By /s/ Floyd E. Wicks  
-----  
Title President and C.E.O.

SOUTHERN CALIFORNIA WATER COMPANY

By /s/ Floyd E. Wicks  
-----  
Title President and C.E.O.

EXECUTIVE

/s/ McClellan Harris III  
-----

## AMENDED AND RESTATED CHANGE-IN-CONTROL AGREEMENT

This Amended and Restated Change-in-Control Agreement (the "Agreement") is dated as of October 25, 1999, is entered into by and among Joel A. Dickson (the "Executive"), American States Water Company (the "Company") and its wholly owned subsidiary, Southern California Water Company, a California corporation ("SCW"), and amends and restates in its entirety the Change-in-Control Agreement dated as of October 27, 1998 among the Executive, the Company and SCW.

## RECITALS

The Company considers it essential to the best interest of the Company and its shareholders that the Executive be encouraged to remain with the Company and SCW and continue to devote full attention to the Company's business notwithstanding the possibility, threat or occurrence of a Change in Control (as defined in Section 3). The Company believes that it is in the best interest of the Company and its shareholders to reinforce and encourage the continued attention and dedication of the Executive and to diminish inevitable distractions arising from the possibility of a Change in Control. Accordingly, to assure the Company that it will have the Executive's undivided attention and services notwithstanding the possibility, threat or occurrence of a Change in Control, and to induce the Executive to remain in the employ of the Company and SCW, and for other good and valuable consideration, the Board of Directors of the Company and SCW has, at the recommendation of the Company's Compensation Committee, caused the Company and SCW to enter into this Agreement.

## TERMS AND CONDITIONS

The Executive, the Company and SCW hereby agree to the following terms and conditions:

## 1. TERM OF AGREEMENT

If a Change in Control (as defined in Section 3) occurs on or before the expiration date of this Agreement and while the Executive is still an employee of the Company or SCW, then this Agreement will continue in effect for two years from the date of such Change in Control and, if the Executive's employment with the Company or SCW is terminated within such two-year period, this Agreement shall thereafter continue in effect until all of the obligations of the Company and SCW under this Agreement shall have been fulfilled. If no Change in Control occurs on or before December 31, 2000, this Agreement shall expire; provided, however that this Agreement shall be automatically extended for an additional two years to December 31, 2002 if (i) a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or SCW on or before the expiration date, or (ii) the Company and SCW have not delivered to you or you shall have not delivered to the Company and SCW written notice at least 60 days prior to the expiration date that such expiration date shall not be so extended. This Agreement shall continue to be automatically extended for an additional two-year period and each succeeding two-year period if a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or SCW or the Company, SCW or you have failed to give notice by the time and in the manner described in this Section 1.

## 2. CHANGE IN CONTROL DATE

The "Change in Control Date" shall mean the first date during the term of this Agreement on which a Change in Control (as defined in Section 3) occurs; provided, however, that if a Change in Control occurs and if the Executive's employment with the Company or SCW is terminated after approval by the Board of Directors of the Company or SCW of a plan or agreement for a Change in Control but prior to the date on which the Change in Control occurs, the "Change in Control Date" shall mean the date immediately preceding the date of such termination.

## 3. CHANGE IN CONTROL

A "Change in Control" shall mean any of the following events:

(a) the dissolution or liquidation of either the Company or SCW, unless its business is continued by another entity in which holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(b) any sale, lease, exchange or other transfer (in one or a series of transactions) of all or substantially all of the assets of either the Company or SCW, unless its business is continued by another entity in which holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(c) any reorganization or merger of the Company or SCW, unless the holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing or surviving entity's voting securities immediately after the event;

(d) an acquisition by any person, entity or group acting in concert of more than 50% of the voting securities of the Company or SCW, unless the holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the acquirer's voting securities immediately after the acquisition; or

(e) a change of one-half or more of the members of the Board of Directors of the Company or SCW within a twelve-month period, unless the election or nomination for election by shareholders of new directors within such period constituting a majority of the applicable Board was approved by the vote of at least two-thirds of the directors then still in office who were in office at the beginning of the twelve-month period.

#### 4. EFFECTIVE PERIOD

For the purpose of this Agreement, the "Effective Period" is the period commencing on the Change in Control Date and ending on the date this Agreement terminates.

#### 5. TERMINATION OF EMPLOYMENT

(a) Death or Disability: The Executive's employment shall terminate automatically upon the Executive's death. If the Disability (as defined below) of the Executive occurs during the Effective Period, the Company or SCW may give the Executive written notice of their intention to terminate the Executive's employment. In such event, the Executive's employment with the Company or SCW shall terminate effective on the 30th day after receipt of

such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of his or her duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from his or her duties with the Company or SCW on a full-time basis for 180 consecutive business days as a result of a physical or mental condition which prevents the Executive from performing the Executive's normal duties of employment and which is (i) determined to be total and permanent by a physician selected by the Company or SCW or their insurers and acceptable to the Executive or the Executive's legal representative and/or (ii) entitles the Executive to the payment of long-term disability benefits from the Company's or SCW's long-term disability plan commencing no later than the Disability Effective Date.

(b) Cause: The Company or SCW may terminate the Executive's employment other than for Cause or Disability during the Effective Period as provided in Section 6(a). The Company or SCW may also terminate the Executive's employment during the Effective Period for Cause. For purposes of this Agreement, "Cause" shall be limited to the following:

(i) the Executive's failure to render services to the Company or SCW where such failure amounts to gross neglect or gross misconduct of the Executive's responsibility and duties,

(ii) the Executive's commission of an act of fraud or dishonesty against the Company or any affiliate of the Company, or

(iii) the Executive's conviction of a felony or other crime involving moral turpitude.

(c) Good Reason: The Executive's employment may be terminated by the Executive during the Effective Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the Change in Control Date, or any other action by the Company or SCW which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company or SCW, as the case may be, promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company or SCW to reappoint the Executive to a position held by the Executive on the Change in Control Date, except as a result of the termination of the Executive's employment by the Company or SCW for Cause or Disability, the death of the Executive, or the termination of the Executive's employment by the Executive other than for Good Reason;

(iii) reduction by the Company or SCW in the Executive's base salary as in effect on the date hereof or as the same may be increased from time-to-time;

(iv) the taking of any action by the Company or SCW (including the elimination of benefit plans without providing substitutes therefore or the reduction of the Executive's benefits thereunder) that would substantially diminish the aggregate value of the Executive's incentive awards and other fringe

benefits including the executive benefits and perquisites from the levels in effect prior to the Change in Control Date;

(v) the Company's or SCW's requiring the Executive to be based at any office or location which increases the distance from the Executive's home to the office location by more than 35 miles from the distance in effect as of the Change in Control Date;

(vi) any failure by the Company or SCW to comply with and satisfy Section 11(c) of this Agreement.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION

(a) Good Reason, Other Than for Cause or Disability: If the Company or SCW shall terminate the Executive's employment other than for Cause or Disability during the Effective Period, or the Executive shall terminate employment for Good Reason during the Effective Period, the Company and SCW agrees, subject to Section 8, to make the payments and provide the benefits described below:

(i) The Company and/or SCW shall pay to the Executive in a cash lump sum within 10 days from the date of the Executive's termination of employment an amount equal to the product of (A) and (B), where (A) is 2.99 and (B) is the Executive's annual base salary at the highest of the rate in effect at any time during the three years preceding the date of termination.

(ii) The Company and/or SCW shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the sum of (A) the Executive's base salary through the date of termination, plus (B) any

compensation previously deferred by the Executive (together with any accrued earnings or interest thereon), plus (C) any accrued vacation pay, in each case to the extent not theretofore paid (the amounts referred to in this paragraph (ii) are hereinafter referred to as the "Accrued Obligations").

(iii) The Company and/or SCW shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the excess of (A) over (B), where (A) is equal to the single sum actuarial equivalent of what would be the Executive's accrued benefits under the terms of the Southern California Water Company Pension Plan (or any successor thereto), including any supplemental retirement plan providing additional pension benefits, (hereinafter together referred to as the "Pension Plan") at the time of the Executive's termination of employment, without regard to whether such benefits are "vested" thereunder, if the Executive were credited with an additional two years of continuous service after the termination of Executive's employment with the Company or SCW at the Executive's highest annual rate of compensation covered by such Pension Plan within the three years preceding the date of the termination of the Executive's employment with the Company or SCW and (B) is equal to the single sum actuarial equivalent of the Executive's accrued benefits under the Pension Plan at the time of the Executive's termination of employment. The payment under this paragraph (iii) shall not extinguish any rights the Executive has to benefits under the Pension Plan. For purposes of this paragraph, "actuarial equivalent" shall be determined using the actuarial assumptions used under the

Pension Plan for determining the actuarial equivalence of different annuity forms of benefits. In no event shall the additional two years of continuous service referred to above cause the Executive to be deemed to be older than the Executive's actual age for any purpose under this Agreement.

(iv) For two years after the Executive's date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company and SCW shall continue to provide welfare benefits and fringe benefits and other perquisites to the Executive and/or the Executive's family at least equal to those which would have been provided to them if the Executive's employment had not been terminated (in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliates applicable generally to other peer executives and their families immediately preceding the date of the Executive's termination of employment); provided, however, that if the Executive becomes employed by another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for any retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until two years after the date of termination of employment and to have retired on the last day of such period. Following the

period of continued benefits referred to in this subsection, the Executive and the Executive's family shall be given the right provided in Section 4980B of the Internal Revenue Code of 1986 (the "Code") to elect to continue benefits in all group medical plans. In the event that the Executive's participation in any of the plans, programs, practices or policies of the Company or SCW referred to in this subsection is barred by the terms of such plans, programs, practices or policies, the Company and/or SCW shall provide the Executive with benefits substantially similar to those which the Executive would be entitled as a participant in such plans, programs, practices or policies. At the end of the period of coverage, the Executive shall have the option to have assigned to the Executive, at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company or SCW and relating specifically to the Executive.

(v) The Company and/or SCW shall enable the Executive to purchase, at the end of the Effective Period, the automobile, if any, provided by the Company and/or SCW for the Executive's use at the time of the Executive's termination of employment at the wholesale value of such automobile at such time, as shown in the current addition of the National Auto Research Publication Blue Book. At the Executive's election, the Executive may retain any existing club memberships of the Executive purchased by the Company or SCW upon reimbursement to the Company or SCW, as the case may be, of any membership costs paid by the Company or SCW.

(vi) To the extent not theretofore paid or provided, the Company and/or SCW shall timely pay or provide the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company and its affiliates (such other amounts and benefits being hereinafter referred to as "Other Benefits") in accordance with the terms of such plan, program, policy, practice, contract or agreement.

(vii) The Executive shall be entitled to interest on any payments not paid on a timely basis as provided in this Section 6(a) at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

(b) Death: If the Executive's employment is terminated by reason of the Executive's death during the Effective Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a cash lump sum within 10 days of the date of the Executive's death.

(c) Disability: If the Executive's employment is terminated by reason of the Executive's Disability during the Effective Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a cash lump sum within 30 days of the Executive's termination of employment.

(d) Cause, Other than for Good Reason: If the Executive's employment shall be terminated for Cause during the Effective Period or, if the Executive voluntarily terminates employment during the Effective Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and any benefits payable to Executive under a plan, policy, practice, etc., referred to in Section 7 below. Accrued Obligations shall be paid to the Executive in a cash lump sum within 60 days of the Executive's termination of employment.

7. NON-EXCLUSIVITY OF RIGHTS

Subject to Section 8, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliates and for which the Executive may qualify, nor, subject to Sections 8 and 20, shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliates. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company or any of its affiliates at or subsequent to the date of termination of the Executive's employment shall be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

8. LIMITATION ON BENEFITS

Notwithstanding anything in this Agreement to the contrary, if any payments or benefits to be made to or for the Executive's benefit, whether pursuant to this Agreement or otherwise, whether by the Company, SCW or another entity or person, would not be deductible

by the Company or SCW due to limitations imposed by Section 162(m) of the Code, then such payments or benefits shall be deferred to the extent necessary until such time as such payments would be deductible under Section 162(m) of the Code. Either the Company, SCW or the Executive may request a determination as to whether any payments would be subject to limitations on deductibility under Section 162(m) of the Code and, of so requested, such determination shall be made by independent legal counsel selected by the Company or SCW and approved by the Executive. Payment may be delayed pending any such determination, provided that the Executive shall be entitled to interest on any delayed payment at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code. The Executive shall also be entitled to interest on any payments deferred as a result of the limitations on deductibility under Section 162(m) of the Code at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

9. PARACHUTE PAYMENTS

(a) Gross-Up Payment. In the event that any payment or distribution by the Company or SCW to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments under this Section 9(a)) (a "Payment") is determined to be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company and SCW shall pay to the Executive an additional payment (a "Gross-Up Payment") in

an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such Payments.

(b) Accounting Firm. Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen LLP or such other certified public accounting firm as may be designated by Executive and which is satisfactory to the Company and SCW (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and SCW and to Executive within 15 business days after such determinations are requested by Executive, the Company or SCW. All fees and expenses of the Accounting Firm shall be borne solely by the Company and SCW. The Company and SCW shall be jointly and severally obligated to pay any Gross-Up Payment, as determined pursuant to this Section 9(b), to Executive within five days after the receipt by the Company and/or SCW of the Accounting Firm's determination. Any determination by the Accounting Firm shall be final and binding on the Company, SCW and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company and/or SCW should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company and SCW exhausts its remedies pursuant to Section 9(c) and Executive thereafter is required to make a payment of

any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and the Company and SCW shall be jointly and severally obligated to pay any such Underpayment promptly to or for the benefit of Executive.

(c) Internal Revenue Service Claims. Executive shall notify the Company and SCW in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company and/or SCW of a Gross-Up Payment. Executive shall give such notice as soon as practicable but no later than ten business days after Executive is informed in writing of such claim and shall apprise the Company and SCW of the nature of such claim, and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company and SCW (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company or SCW notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) Give the Company and SCW any information reasonably requested by either of them relating to such claim,

(ii) Take such action in connection with contesting such claim as the Company or SCW shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company or SCW,

(iii) Cooperate with the Company and SCW in good faith in order to contest such claim effectively, and

(iv) Permit the Company and SCW to participate in any proceedings relating to such claim;

provided, however, that the Company and SCW shall be jointly and severally obligated to bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company and SCW shall control all proceedings taken in connection with such contests and, at their sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at their sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company and SCW shall determine; provided, however that if the Company or SCW directs Executive to pay such claim and sue for a refund, the Company or SCW, as the case may be, shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount.

Furthermore, the control by the Company and/or SCW of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Refunds. If, after the receipt by Executive of an amount advanced by the Company and/or SCW pursuant to Section 9(c), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to compliance by the Company and SCW with the requirements of Section 9(c)) promptly pay to the Company and SCW the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company and/or SCW pursuant to Section 9(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company or SCW does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

#### 10. FULL SETTLEMENT

The obligation of the Company and SCW to make the payments provided for in this Agreement and otherwise to perform their obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company or SCW may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to

the Executive under any of the provisions of this Agreement and, except as provided in Section 6(a)(iv), such amounts shall not be reduced whether or not Executive obtains other employment.

#### 11. SUCCESSORS

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company, SCW and their successors and assigns.

(c) The Company and SCW will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of their business and/or assets to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company or SCW would be required to perform it if no such succession had taken place. As used in this Agreement, the "Company" shall mean the Company as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise, and "SCW" shall mean SCW as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

#### 12. ARBITRATION

(a) Because it is agreed that time will be of the essence in determining whether any payments are due to the Executive under this Agreement, the Executive may submit any claim for payment under this Agreement or dispute regarding the interpretation of this Agreement to arbitration. This right to select arbitration shall be solely that of the Executive, and

the Executive may decide whether or not to arbitrate in his or her discretion. The "right to select arbitration" is not mandatory on the Executive, and the Executive may choose in lieu thereof to bring an action in an appropriate civil court. Once an arbitration is commenced, however, it may not be discontinued without the mutual consent of both parties to the arbitration. During the lifetime of the Executive only he or she can use the arbitration procedure set forth in this section.

(b) Any claim for arbitration may be submitted as follows: If the Executive disagrees with the Company or SCW regarding the interpretation of this Agreement and the claim is finally denied by the Company or SCW in whole or in part, such claim may be filed in writing with an arbitrator of the Executive's choice who is selected by the method described in the next three sentences. The first step of the selection shall consist of the Executive submitting a list of five potential arbitrators to the Company and SCW. Each of the five arbitrators must be either (1) a member of the National Academy of Arbitrators located in the State of California or (2) a retired California Superior Court or Appellate Court judge. Within two weeks after receipt of the list, the Company and SCW shall select one of the five arbitrators as the arbitrator for the dispute in question. If the Company and SCW fail to select an arbitrator in a timely manner, the Executive shall then designate one of the five arbitrators as the arbitrator for the dispute in question.

(c) The arbitration hearing shall be held within thirty days (or as soon thereafter as possible) after the picking of the arbitrator. No continuance of the hearing shall be allowed without the mutual consent of the Executive and the Company. Absence from or nonparticipation at the hearing by either party shall not prevent the issuance of an award. Hearing procedures which will expedite the hearing may be ordered at the arbitrator's discretion, and the arbitrator

may close the hearing at his or her discretion when sufficient evidence to satisfy issuance of an award has been presented.

(d) The arbitrator's award shall be rendered as expeditiously as possible and in no event later than thirty days after the close of the hearing. In the event the arbitrator finds that the Company or SCW has breached this Agreement, he or she shall order the Company or SCW, as the case may be, to immediately take the necessary steps to remedy the breach. The award of the arbitrator shall be final and binding upon the parties. The award may be enforced in any appropriate court as soon as possible after it is rendered. If an action is brought to confirm the award, the Company, SCW and the Executive agree that no appeal shall be taken by either party from any decision rendered in such action.

(e) The Company and SCW will be considered the prevailing party in a dispute if the arbitrator determines that neither the Company nor SCW has breached this Agreement. Otherwise, the Executive will be considered the prevailing party. In the event that the Company and SCW are the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (excluding any attorneys' fees incurred by the Company or SCW) including stenographic reporter, if employed, shall be paid by the Executive. In the event that Executive is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (including all attorneys' fees incurred by the Executive), including the fees of a stenographic reporter if employed, shall be paid by the Company and SCW.

### 13. GOVERNING LAW

The laws of California shall govern the validity and interpretation of this Agreement, with regard to conflicts of laws.

14. CAPTIONS

The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

15. AMENDMENT

This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

16. NOTICES

All notices and other communications regarding this Agreement shall be in writing and shall be hand delivered to the other party or sent by prepaid registered or certified mail, return receipt requested, addressed as follows:

If to the Executive:  
-----  
-----  
-----

If to the Company: American States Water Company  
630 East Foothill Boulevard  
San Dimas, CA 91773  
Attn: Secretary

If to SCW: Southern California Water Company  
630 East Foothill Boulevard  
San Dimas, CA 91773  
Attn: Secretary

or to such other address as either party shall have furnished to the other in writing. Notice and communications shall be effective when actually received by the addressee.

## 17. SEVERABILITY

The lack of validity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

## 18. WITHHOLDING TAXES

The Company and SCW may withhold required federal, state, local or foreign taxes from any amounts payable under this Agreement.

## 19. NO WAIVER

The Executive's, the Company's or SCW's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive, the Company or SCW may have under this Agreement, including, without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right under this Agreement.

## 20. AT-WILL EMPLOYMENT

The Executive, the Company and SCW acknowledge that, except as may otherwise be provided under any other written agreement between the Executive, the Company and SCW, the employment of the Executive by the Company and SCW prior to the Change in Control Date is "at will" and, prior to the Change in Control Date, the Executive's employment may be terminated by either the Executive or the Company or SCW, as the case may be, at any time, in which case the Executive shall have no further rights under this Agreement. From and after the Change in Control Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

21. COUNTERPARTS

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same Agreement.

21. JOINT AND SEVERAL LIABILITY

The obligation of the Company and SCW to make payments hereunder shall be joint and several.

22. ALLOCATION OF PAYMENTS

As between the Company and SCW, any payments to be made by the Company and/ SCW hereunder shall be allocated between the Company and SCW on the same basis as the payment of salary and benefits of the Executive were allocated between the Company and SCW immediately prior to the Change in Control Date.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first written above in Los Angeles, California.

AMERICAN STATES WATER COMPANY

By /s/ Floyd E. Wicks  
-----  
Title President and C.E.O.

SOUTHERN CALIFORNIA WATER COMPANY

By /s/ Floyd E. Wicks  
-----  
Title President and C.E.O.

EXECUTIVE

/s/ Joel A. Dickson  
-----

## AMENDED AND RESTATED CHANGE-IN-CONTROL AGREEMENT

This Amended and Restated Change-in-Control Agreement (the "Agreement") is dated as of October 25, 1999, is entered into by and among Floyd E. Wicks (the "Executive"), American States Water Company (the "Company") and its wholly owned subsidiary, Southern California Water Company, a California corporation ("SCW"), and amends and restates in its entirety the Change-in-Control Agreement dated as of October 27, 1998 among the Executive, the Company and SCW.

## RECITALS

The Company considers it essential to the best interest of the Company and its shareholders that the Executive be encouraged to remain with the Company and SCW and continue to devote full attention to the Company's business notwithstanding the possibility, threat or occurrence of a Change in Control (as defined in Section 3). The Company believes that it is in the best interest of the Company and its shareholders to reinforce and encourage the continued attention and dedication of the Executive and to diminish inevitable distractions arising from the possibility of a Change in Control. Accordingly, to assure the Company that it will have the Executive's undivided attention and services notwithstanding the possibility, threat or occurrence of a Change in Control, and to induce the Executive to remain in the employ of the Company and SCW, and for other good and valuable consideration, the Board of Directors of the Company and SCW has, at the recommendation of the Company's Compensation Committee, caused the Company and SCW to enter into this Agreement.

## TERMS AND CONDITIONS

The Executive, the Company and SCW hereby agree to the following terms and conditions:

## 1. TERM OF AGREEMENT

If a Change in Control (as defined in Section 3) occurs on or before the expiration date of this Agreement and while the Executive is still an employee of the Company or SCW, then this Agreement will continue in effect for two years from the date of such Change in Control and, if the Executive's employment with the Company or SCW is terminated within such two-year period, this Agreement shall thereafter continue in effect until all of the obligations of the Company and SCW under this Agreement shall have been fulfilled. If no Change in Control occurs on or before December 31, 2000, this Agreement shall expire; provided, however that this Agreement shall be automatically extended for an additional two years to December 31, 2002 if (i) a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or SCW on or before the expiration date, or (ii) the Company and SCW have not delivered to you or you shall have not delivered to the Company and SCW written notice at least 60 days prior to the expiration date that such expiration date shall not be so extended. This Agreement shall continue to be automatically extended for an additional two-year period and each succeeding two-year period if a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or SCW or the Company, SCW or you have failed to give notice by the time and in the manner described in this Section 1.

## 2. CHANGE IN CONTROL DATE

The "Change in Control Date" shall mean the first date during the term of this Agreement on which a Change in Control (as defined in Section 3) occurs; provided, however, that if a Change in Control occurs and if the Executive's employment with the Company or SCW is terminated after approval by the Board of Directors of the Company or SCW of a plan or agreement for a Change in Control but prior to the date on which the Change in Control occurs, the "Change in Control Date" shall mean the date immediately preceding the date of such termination.

## 3. CHANGE IN CONTROL

A "Change in Control" shall mean any of the following events:

(a) the dissolution or liquidation of either the Company or SCW, unless its business is continued by another entity in which holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(b) any sale, lease, exchange or other transfer (in one or a series of transactions) of all or substantially all of the assets of either the Company or SCW, unless its business is continued by another entity in which holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(c) any reorganization or merger of the Company or SCW, unless the holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing or surviving entity's voting securities immediately after the event;

(d) an acquisition by any person, entity or group acting in concert of more than 50% of the voting securities of the Company or SCW, unless the holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than 50% of the acquirer's voting securities immediately after the acquisition; or

(e) a change of one-half or more of the members of the Board of Directors of the Company or SCW within a twelve-month period, unless the election or nomination for election by shareholders of new directors within such period constituting a majority of the applicable Board was approved by the vote of at least two-thirds of the directors then still in office who were in office at the beginning of the twelve-month period.

#### 4. EFFECTIVE PERIOD

For the purpose of this Agreement, the "Effective Period" is the period commencing on the Change in Control Date and ending on the date this Agreement terminates.

#### 5. TERMINATION OF EMPLOYMENT

(a) Death or Disability: The Executive's employment shall terminate automatically upon the Executive's death. If the Disability (as defined below) of the Executive occurs during the Effective Period, the Company or SCW may give the Executive written notice of their intention to terminate the Executive's employment. In such event, the Executive's employment with the Company or SCW shall terminate effective on the 30th day after receipt of

such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of his or her duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from his or her duties with the Company or SCW on a full-time basis for 180 consecutive business days as a result of a physical or mental condition which prevents the Executive from performing the Executive's normal duties of employment and which is (i) determined to be total and permanent by a physician selected by the Company or SCW or their insurers and acceptable to the Executive or the Executive's legal representative and/or (ii) entitles the Executive to the payment of long-term disability benefits from the Company's or SCW's long-term disability plan commencing no later than the Disability Effective Date.

(b) Cause: The Company or SCW may terminate the Executive's employment other than for Cause or Disability during the Effective Period as provided in Section 6(a). The Company or SCW may also terminate the Executive's employment during the Effective Period for Cause. For purposes of this Agreement, "Cause" shall be limited to the following:

(i) the Executive's failure to render services to the Company or SCW where such failure amounts to gross neglect or gross misconduct of the Executive's responsibility and duties,

(ii) the Executive's commission of an act of fraud or dishonesty against the Company or any affiliate of the Company, or

(iii) the Executive's conviction of a felony or other crime involving moral turpitude.

(c) Good Reason: The Executive's employment may be terminated by the Executive during the Effective Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the Change in Control Date, or any other action by the Company or SCW which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company or SCW, as the case may be, promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company or SCW to reappoint the Executive to a position held by the Executive on the Change in Control Date, except as a result of the termination of the Executive's employment by the Company or SCW for Cause or Disability, the death of the Executive, or the termination of the Executive's employment by the Executive other than for Good Reason;

(iii) reduction by the Company or SCW in the Executive's base salary as in effect on the date hereof or as the same may be increased from time-to-time;

(iv) the taking of any action by the Company or SCW (including the elimination of benefit plans without providing substitutes therefore or the reduction of the Executive's benefits thereunder) that would substantially diminish the aggregate value of the Executive's incentive awards and other fringe

benefits including the executive benefits and perquisites from the levels in effect prior to the Change in Control Date;

(v) the Company's or SCW's requiring the Executive to be based at any office or location which increases the distance from the Executive's home to the office location by more than 35 miles from the distance in effect as of the Change in Control Date;

(vi) any failure by the Company or SCW to comply with and satisfy Section 11(c) of this Agreement.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION

(a) Good Reason, Other Than for Cause or Disability: If the Company or SCW shall terminate the Executive's employment other than for Cause or Disability during the Effective Period, or the Executive shall terminate employment for Good Reason during the Effective Period, the Company and SCW agrees, subject to Section 8, to make the payments and provide the benefits described below:

(i) The Company and/or SCW shall pay to the Executive in a cash lump sum within 10 days from the date of the Executive's termination of employment an amount equal to the product of (A) and (B), where (A) is 2.99 and (B) is the Executive's annual base salary at the highest of the rate in effect at any time during the three years preceding the date of termination.

(ii) The Company and/or SCW shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the sum of (A) the Executive's base salary through the date of termination, plus (B) any

compensation previously deferred by the Executive (together with any accrued earnings or interest thereon), plus (C) any accrued vacation pay, in each case to the extent not theretofore paid (the amounts referred to in this paragraph (ii) are hereinafter referred to as the "Accrued Obligations").

(iii) The Company and/or SCW shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the excess of (A) over (B), where (A) is equal to the single sum actuarial equivalent of what would be the Executive's accrued benefits under the terms of the Southern California Water Company Pension Plan (or any successor thereto), including any supplemental retirement plan providing additional pension benefits, (hereinafter together referred to as the "Pension Plan") at the time of the Executive's termination of employment, without regard to whether such benefits are "vested" thereunder, if the Executive were credited with an additional two years of continuous service after the termination of Executive's employment with the Company or SCW at the Executive's highest annual rate of compensation covered by such Pension Plan within the three years preceding the date of the termination of the Executive's employment with the Company or SCW and (B) is equal to the single sum actuarial equivalent of the Executive's accrued benefits under the Pension Plan at the time of the Executive's termination of employment. The payment under this paragraph (iii) shall not extinguish any rights the Executive has to benefits under the Pension Plan. For purposes of this paragraph, "actuarial equivalent" shall be determined using the actuarial assumptions used under the

Pension Plan for determining the actuarial equivalence of different annuity forms of benefits. In no event shall the additional two years of continuous service referred to above cause the Executive to be deemed to be older than the Executive's actual age for any purpose under this Agreement.

(iv) For two years after the Executive's date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company and SCW shall continue to provide welfare benefits and fringe benefits and other perquisites to the Executive and/or the Executive's family at least equal to those which would have been provided to them if the Executive's employment had not been terminated (in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliates applicable generally to other peer executives and their families immediately preceding the date of the Executive's termination of employment); provided, however, that if the Executive becomes employed by another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for any retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until two years after the date of termination of employment and to have retired on the last day of such period. Following the

period of continued benefits referred to in this subsection, the Executive and the Executive's family shall be given the right provided in Section 4980B of the Internal Revenue Code of 1986 (the "Code") to elect to continue benefits in all group medical plans. In the event that the Executive's participation in any of the plans, programs, practices or policies of the Company or SCW referred to in this subsection is barred by the terms of such plans, programs, practices or policies, the Company and/or SCW shall provide the Executive with benefits substantially similar to those which the Executive would be entitled as a participant in such plans, programs, practices or policies. At the end of the period of coverage, the Executive shall have the option to have assigned to the Executive, at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company or SCW and relating specifically to the Executive.

(v) The Company and/or SCW shall enable the Executive to purchase, at the end of the Effective Period, the automobile, if any, provided by the Company and/or SCW for the Executive's use at the time of the Executive's termination of employment at the wholesale value of such automobile at such time, as shown in the current addition of the National Auto Research Publication Blue Book. At the Executive's election, the Executive may retain any existing club memberships of the Executive purchased by the Company or SCW upon reimbursement to the Company or SCW, as the case may be, of any membership costs paid by the Company or SCW.

(vi) To the extent not theretofore paid or provided, the Company and/or SCW shall timely pay or provide the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company and its affiliates (such other amounts and benefits being hereinafter referred to as "Other Benefits") in accordance with the terms of such plan, program, policy, practice, contract or agreement.

(vii) The Executive shall be entitled to interest on any payments not paid on a timely basis as provided in this Section 6(a) at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

(b) Death: If the Executive's employment is terminated by reason of the Executive's death during the Effective Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a cash lump sum within 10 days of the date of the Executive's death.

(c) Disability: If the Executive's employment is terminated by reason of the Executive's Disability during the Effective Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a cash lump sum within 30 days of the Executive's termination of employment.

(d) Cause, Other than for Good Reason: If the Executive's employment shall be terminated for Cause during the Effective Period or, if the Executive voluntarily terminates employment during the Effective Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and any benefits payable to Executive under a plan, policy, practice, etc., referred to in Section 7 below. Accrued Obligations shall be paid to the Executive in a cash lump sum within 60 days of the Executive's termination of employment.

7. NON-EXCLUSIVITY OF RIGHTS

Subject to Section 8, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliates and for which the Executive may qualify, nor, subject to Sections 8 and 20, shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliates. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company or any of its affiliates at or subsequent to the date of termination of the Executive's employment shall be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

8. LIMITATION ON BENEFITS

Notwithstanding anything in this Agreement to the contrary, if any payments or benefits to be made to or for the Executive's benefit, whether pursuant to this Agreement or otherwise, whether by the Company, SCW or another entity or person, would not be deductible

by the Company or SCW due to limitations imposed by Section 162(m) of the Code, then such payments or benefits shall be deferred to the extent necessary until such time as such payments would be deductible under Section 162(m) of the Code. Either the Company, SCW or the Executive may request a determination as to whether any payments would be subject to limitations on deductibility under Section 162(m) of the Code and, of so requested, such determination shall be made by independent legal counsel selected by the Company or SCW and approved by the Executive. Payment may be delayed pending any such determination, provided that the Executive shall be entitled to interest on any delayed payment at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code. The Executive shall also be entitled to interest on any payments deferred as a result of the limitations on deductibility under Section 162(m) of the Code at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

9. PARACHUTE PAYMENTS

(a) Gross-Up Payment. In the event that any payment or distribution by the Company or SCW to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments under this Section 9(a)) (a "Payment") is determined to be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company and SCW shall pay to the Executive an additional payment (a "Gross-Up Payment") in

an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such Payments.

(b) Accounting Firm. Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen LLP or such other certified public accounting firm as may be designated by Executive and which is satisfactory to the Company and SCW (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and SCW and to Executive within 15 business days after such determinations are requested by Executive, the Company or SCW. All fees and expenses of the Accounting Firm shall be borne solely by the Company and SCW. The Company and SCW shall be jointly and severally obligated to pay any Gross-Up Payment, as determined pursuant to this Section 9(b), to Executive within five days after the receipt by the Company and/or SCW of the Accounting Firm's determination. Any determination by the Accounting Firm shall be final and binding on the Company, SCW and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company and/or SCW should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company and SCW exhausts its remedies pursuant to Section 9(c) and Executive thereafter is required to make a payment of

any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and the Company and SCW shall be jointly and severally obligated to pay any such Underpayment promptly to or for the benefit of Executive.

(c) Internal Revenue Service Claims. Executive shall notify the Company and SCW in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company and/or SCW of a Gross-Up Payment. Executive shall give such notice as soon as practicable but no later than ten business days after Executive is informed in writing of such claim and shall apprise the Company and SCW of the nature of such claim, and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company and SCW (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company or SCW notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) Give the Company and SCW any information reasonably requested by either of them relating to such claim,

(ii) Take such action in connection with contesting such claim as the Company or SCW shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company or SCW,

(iii) Cooperate with the Company and SCW in good faith in order to contest such claim effectively, and

(iv) Permit the Company and SCW to participate in any proceedings relating to such claim;

provided, however, that the Company and SCW shall be jointly and severally obligated to bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company and SCW shall control all proceedings taken in connection with such contests and, at their sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at their sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company and SCW shall determine; provided, however that if the Company or SCW directs Executive to pay such claim and sue for a refund, the Company or SCW, as the case may be, shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount.

Furthermore, the control by the Company and/or SCW of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Refunds. If, after the receipt by Executive of an amount advanced by the Company and/or SCW pursuant to Section 9(c), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to compliance by the Company and SCW with the requirements of Section 9(c)) promptly pay to the Company and SCW the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company and/or SCW pursuant to Section 9(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company or SCW does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

#### 10. FULL SETTLEMENT

The obligation of the Company and SCW to make the payments provided for in this Agreement and otherwise to perform their obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company or SCW may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to

the Executive under any of the provisions of this Agreement and, except as provided in Section 6(a)(iv), such amounts shall not be reduced whether or not Executive obtains other employment.

#### 11. SUCCESSORS

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company, SCW and their successors and assigns.

(c) The Company and SCW will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of their business and/or assets to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company or SCW would be required to perform it if no such succession had taken place. As used in this Agreement, the "Company" shall mean the Company as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise, and "SCW" shall mean SCW as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

#### 12. ARBITRATION

(a) Because it is agreed that time will be of the essence in determining whether any payments are due to the Executive under this Agreement, the Executive may submit any claim for payment under this Agreement or dispute regarding the interpretation of this Agreement to arbitration. This right to select arbitration shall be solely that of the Executive, and the Executive may decide whether or not to arbitrate in his or her discretion. The "right to select arbitration" is not mandatory on the Executive, and the Executive may choose in lieu thereof to bring an action in an appropriate civil court. Once an arbitration is commenced, however, it may not be discontinued without the mutual consent of both parties to the arbitration. During the lifetime of the Executive only he or she can use the arbitration procedure set forth in this section.

(b) Any claim for arbitration may be submitted as follows: If the Executive disagrees with the Company or SCW regarding the interpretation of this Agreement and the claim is finally denied by the Company or SCW in whole or in part, such claim may be filed in writing with an arbitrator of the Executive's choice who is selected by the method described in the next three sentences. The first step of the selection shall consist of the Executive submitting a list of five potential arbitrators to the Company and SCW. Each of the five arbitrators must be either (1) a member of the National Academy of Arbitrators located in the State of California or (2) a retired California Superior Court or Appellate Court judge. Within two weeks after receipt of the list, the Company and SCW shall select one of the five arbitrators as the arbitrator for the dispute in question. If the Company and SCW fail to select an arbitrator in a timely manner, the Executive shall then designate one of the five arbitrators as the arbitrator for the dispute in question.

(c) The arbitration hearing shall be held within thirty days (or as soon thereafter as possible) after the picking of the arbitrator. No continuance of the hearing shall be allowed without the mutual consent of the Executive and the Company. Absence from or nonparticipation at the hearing by either party shall not prevent the issuance of an award. Hearing procedures which will expedite the hearing may be ordered at the arbitrator's discretion, and the arbitrator may close the hearing at his or her discretion when sufficient evidence to satisfy issuance of an award has been presented.

(d) The arbitrator's award shall be rendered as expeditiously as possible and in no event later than thirty days after the close of the hearing. In the event the arbitrator finds that the Company or SCW has breached this Agreement, he or she shall order the Company or SCW, as the case may be, to immediately take the necessary steps to remedy the breach. The award of the arbitrator shall be final and binding upon the parties. The award may be enforced in any appropriate court as soon as possible after it is rendered. If an action is brought to confirm the award, the Company, SCW and the Executive agree that no appeal shall be taken by either party from any decision rendered in such action.

(e) The Company and SCW will be considered the prevailing party in a dispute if the arbitrator determines that neither the Company nor SCW has breached this Agreement. Otherwise, the Executive will be considered the prevailing party. In the event that the Company and SCW are the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (excluding any attorneys' fees incurred by the Company or SCW) including stenographic reporter, if employed, shall be paid by the Executive. In the event that Executive is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (including all

attorneys' fees incurred by the Executive), including the fees of a stenographic reporter if employed, shall be paid by the Company and SCW.

13. GOVERNING LAW

The laws of California shall govern the validity and interpretation of this Agreement, with regard to conflicts of laws.

14. CAPTIONS

The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

15. AMENDMENT

This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

16. NOTICES

All notices and other communications regarding this Agreement shall be in writing and shall be hand delivered to the other party or sent by prepaid registered or certified mail, return receipt requested, addressed as follows:

If to the Executive:  
-----  
-----  
-----

If to the Company: American States Water Company  
630 East Foothill Boulevard  
San Dimas, CA 91773  
Attn: Secretary

If to SCW: Southern California Water Company

630 East Foothill Boulevard  
San Dimas, CA 91773  
Attn: Secretary

or to such other address as either party shall have furnished to the other in writing. Notice and communications shall be effective when actually received by the addressee.

17. SEVERABILITY

The lack of validity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

18. WITHHOLDING TAXES

The Company and SCW may withhold required federal, state, local or foreign taxes from any amounts payable under this Agreement.

19. NO WAIVER

The Executive's, the Company's or SCW's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive, the Company or SCW may have under this Agreement, including, without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right under this Agreement.

20. AT-WILL EMPLOYMENT

The Executive, the Company and SCW acknowledge that, except as may otherwise be provided under any other written agreement between the Executive, the Company and SCW, the employment of the Executive by the Company and SCW prior to the Change in Control Date is "at will" and, prior to the Change in Control Date, the Executive's employment

may be terminated by either the Executive or the Company or SCW, as the case may be, at any time, in which case the Executive shall have no further rights under this Agreement. From and after the Change in Control Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

21. COUNTERPARTS

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same Agreement.

21. JOINT AND SEVERAL LIABILITY

The obligation of the Company and SCW to make payments hereunder shall be joint and several.

22. ALLOCATION OF PAYMENTS

As between the Company and SCW, any payments to be made by the Company and/ SCW hereunder shall be allocated between the Company and SCW on the same basis as the payment of salary and benefits of the Executive were allocated between the Company and SCW immediately prior to the Change in Control Date.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first written above in Los Angeles, California.

AMERICAN STATES WATER COMPANY

By /s/ Lloyd E. Ross  
-----  
Title Chairman of the Board

SOUTHERN CALIFORNIA WATER COMPANY

By /s/ Lloyd E. Ross  
-----  
Title Chairman of the Board

EXECUTIVE

/s/ Floyd E. Wicks  
-----

AMENDED AND RESTATED CHANGE-IN-CONTROL AGREEMENTS,  
BETWEEN SOUTHERN CALIFORNIA WATER COMPANY AND CERTAIN EXECUTIVES,  
DATED AS OF OCTOBER 25, 1999

## AMENDED AND RESTATED CHANGE-IN-CONTROL AGREEMENT

This Amended and Restated Change-in-Control Agreement (the "Agreement") is dated as of October 25, 1999, is entered into by and between Susan L. Conway (the "Executive") and Southern California Water Company, a California corporation (the "Company"), and amends and restates in its entirety the Change-in-Control Agreement dated as of October 27, 1998 among the Executive and the Company.

## RECITALS

The Company considers it essential to the best interest of the Company and its shareholders that the Executive be encouraged to remain with the Company and continue to devote full attention to the Company's business notwithstanding the possibility, threat or occurrence of a Change in Control (as defined in Section 3). The Company believes that it is in the best interest of the Company and its shareholders to reinforce and encourage the continued attention and dedication of the Executive and to diminish inevitable distractions arising from the possibility of a Change in Control. Accordingly, to assure the Company that it will have the Executive's undivided attention and services notwithstanding the possibility, threat or occurrence of a Change in Control, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Board of Directors of the Company has, at the recommendation of its Compensation Committee, caused the Company to enter into this Agreement.

## TERMS AND CONDITIONS

The Executive and the Company hereby agree to the following terms and conditions:

## 1. TERM OF AGREEMENT

If a Change in Control (as defined in Section 3) occurs on or before the expiration date of this Agreement and while the Executive is still an employee of the Company, then this Agreement will continue in effect for two years from the date of such Change in Control and, if the Executive's employment with the Company is terminated within such two-year period, this Agreement shall thereafter continue in effect until all of the obligations of the Company under this Agreement shall have been fulfilled. If no Change in Control occurs on or before December 31, 2000, this Agreement shall expire; provided, however that this Agreement shall be automatically extended for an additional two years to December 31, 2002 if (i) a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or American States Water Company, a California corporation ("AWR"), on or before the expiration date, or (ii) the Company has not delivered to you or you shall have not delivered to the Company written notice at least 60 days prior to the expiration date that such expiration date shall not be so extended. This Agreement shall continue to be automatically extended for an additional two-year period and each succeeding two-year period if a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or AWR or the Company or the Executive fails to give the notices by the time and in the manner described in this Section 1.

## 2. CHANGE IN CONTROL DATE

The "Change in Control Date" shall mean the first date during the term of this Agreement on which a Change in Control (as defined in Section 3) occurs; provided, however, that if a Change in Control occurs and if the Executive's employment with the Company is terminated after approval by the Board of Directors of the Company or AWR of a plan or agreement for a Change in Control but prior to the date on which the Change in Control occurs, the "Change in Control Date" shall mean the date immediately preceding the date of such termination.

## 3. CHANGE IN CONTROL

A "Change in Control" shall mean any of the following events:

(a) the dissolution or liquidation of either the Company or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(b) any sale, lease, exchange or other transfer (in one or a series of transactions) of all or substantially all of the assets of either the Company or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(c) any reorganization or merger of the Company or AWR, unless the holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing or surviving entity's voting securities immediately after the event;

(d) an acquisition by any person, entity or group acting in concert of more than 50% of the voting securities of the Company or AWR, unless the holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the acquirer's voting securities immediately after the acquisition; or

(e) a change of one-half or more of the members of the Board of Directors of the Company or AWR within a twelve-month period, unless the election or nomination for election by shareholders of new directors within such period constituting a majority of the applicable Board was approved by the vote of at least two-thirds of the directors then still in office who were in office at the beginning of the twelve-month period.

#### 4. EFFECTIVE PERIOD

For the purpose of this Agreement, the "Effective Period" is the period commencing on the Change in Control Date and ending on the date this Agreement terminates.

#### 5. TERMINATION OF EMPLOYMENT

(a) Death or Disability: The Executive's employment shall terminate automatically upon the Executive's death. If the Disability (as defined below) of the Executive occurs during the Effective Period, the Company may give the Executive written notice of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt,

the Executive shall not have returned to full-time performance of his or her duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from his or her duties with the Company on a full-time basis for 180 consecutive business days as a result of a physical or mental condition which prevents the Executive from performing the Executive's normal duties of employment and which is (i) determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative and/or (ii) entitles the Executive to the payment of long-term disability benefits from the Company's or AWR's long-term disability plan commencing no later than the Disability Effective Date.

(b) Cause: The Company may terminate the Executive's employment other than for Cause or Disability during the Effective Period as provided in Section 6(a). The Company may also terminate the Executive's employment during the Effective Period for Cause. For purposes of this Agreement, "Cause" shall be limited to the following:

(i) the Executive's failure to render services to the Company where such failure amounts to gross neglect or gross misconduct of the Executive's responsibility and duties,

(ii) the Executive's commission of an act of fraud or dishonesty against the Company or any affiliate of the Company, or

(iii) the Executive's conviction of a felony or other crime involving moral turpitude.

(c) Good Reason: The Executive's employment may be terminated by the Executive during the Effective Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the Change in Control Date, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to reappoint the Executive to a position held by the Executive on the Change in Control Date, except as a result of the termination of the Executive's employment by the Company for Cause or Disability, the death of the Executive, or the termination of the Executive's employment by the Executive other than for Good Reason;

(iii) reduction by the Company in the Executive's base salary as in effect on the date hereof or as the same may be increased from time-to-time;

(iv) the taking of any action by the Company (including the elimination of benefit plans without providing substitutes therefore or the reduction of the Executive's benefits thereunder) that would substantially diminish the aggregate value of the Executive's incentive awards and other fringe benefits including the

executive benefits and perquisites from the levels in effect prior to the Change in Control Date;

(v) the Company's requiring the Executive to be based at any office or location which increases the distance from the Executive's home to the office location by more than 35 miles from the distance in effect as of the Change in Control Date;

(vi) any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

#### 6. OBLIGATIONS OF THE COMPANY UPON TERMINATION

(a) Good Reason, Other Than for Cause or Disability: If the Company shall terminate the Executive's employment other than for Cause or Disability during the Effective Period, or the Executive shall terminate employment for Good Reason during the Effective Period, the Company agrees, subject to Section 8, to make the payments and provide the benefits described below:

(i) The Company shall pay to the Executive in a cash lump sum within 10 days from the date of the Executive's termination of employment an amount equal to the product of (A) and (B), where (A) is 2.99 and (B) is the Executive's annual base salary at the highest of the rate in effect at any time during the three years preceding the date of termination. (ii) The Company shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the sum of (A) Executive's base salary through the date of termination, plus (B) any

compensation previously deferred by the Executive (together with any accrued earnings or interest thereon), plus (C) any accrued vacation pay, in each case to the extent not theretofore paid (the amounts referred to in this paragraph (ii) are hereinafter referred to as the "Accrued Obligations").

(iii) The Company shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the excess of (A) over (B), where (A) is equal to the single sum actuarial equivalent of what would be the Executive's accrued benefits under the terms of the Southern California Water Company Pension Plan (or any successor thereto), including any supplemental retirement plan providing additional pension benefits, (hereinafter together referred to as the "Pension Plan") at time of the Executive's termination of employment, without regard to whether such benefits are "vested" thereunder, if the Executive were credited with an additional two years of continuous service after the termination of Executive's employment with the Company at the Executive's highest annual rate of compensation covered by such Pension Plan within the three years preceding the date of the termination of the Executive's employment with the Company and (B) is equal to the single sum actuarial equivalent of the Executive's accrued benefits under the Pension Plan at the time of the Executive's termination of employment. The payment under this paragraph (iii) shall not extinguish any rights the Executive has to benefits under the Pension Plan. For purposes of this paragraph, "actuarial equivalent" shall be determined using the actuarial assumptions used under the Pension Plan for determining the

actuarial equivalence of different annuity forms of benefits. In no event shall the additional two years of continuous service referred to above cause the Executive to be deemed to be older than the Executive's actual age for any purpose under this Agreement.

(iv) For two years after the Executive's date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue to provide welfare benefits and fringe benefits and other perquisites to the Executive and/or the Executive's family at least equal to those which would have been provided to them if the Executive's employment had not been terminated (in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliates applicable generally to other peer executives and their families immediately preceding the date of the Executive's termination of employment); provided, however, that if the Executive becomes employed by another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for any retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until two years after the date of termination of employment and to have retired on the last day of such period. Following the period of

continued benefits referred to in this subsection, the Executive and the Executive's family shall be given the right provided in Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code"), to elect to continue benefits in all group medical plans. In the event that the Executive's participation in any of the plans, programs, practices or policies of the Company referred to in this subsection is barred by the terms of such plans, programs, practices or policies, the Company shall provide the Executive with benefits substantially similar to those which the Executive would be entitled as a participant in such plans, programs, practices or policies. At the end of the period of coverage, the Executive shall have the option to have assigned to the Executive, at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company and relating specifically to the Executive.

(v) The Company shall enable the Executive to purchase, at the end of the Effective Period, the automobile, if any, provided by the Company for the Executive's use at the time of the Executive's termination of employment at the wholesale value of such automobile at such time, as shown in the current addition of the National Auto Research Publication Blue Book. At the Executive's election, the Executive may retain any existing club memberships of the Executive purchased by the Company upon reimbursement to the Company of any membership costs paid by the Company.

(vi) To the extent not theretofore paid or provided, the Company shall timely pay or provide the Executive any other amounts or benefits required to be

paid or provided or which the Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company and its affiliates (such other amounts and benefits being hereinafter referred to as "Other Benefits") in accordance with the terms of such plan, program, policy, practice, contract or agreement.

(vii) The Executive shall be entitled to interest on any payments not paid on a timely basis as provided in this Section 6(a) at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

(b) Death: If the Executive's employment is terminated by reason of the Executive's death during the Effective Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a cash lump sum within 10 days of the date of the Executive's death.

(c) Disability: If the Executive's employment is terminated by reason of the Executive's Disability during the Effective Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a cash lump sum within 30 days of the Executive's termination of employment.

(d) Cause, Other than for Good Reason: If the Executive's employment shall be terminated for Cause during the Effective Period or, if the Executive voluntarily terminates

employment during the Effective Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and any benefits payable to Executive under a plan, policy, practice, etc., referred to in Section 7 below. Accrued Obligations shall be paid to the Executive in a cash lump sum within 60 days of the Executive's termination of employment.

#### 7. NON-EXCLUSIVITY OF RIGHTS

Subject to Section 8, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliates and for which the Executive may qualify, nor, subject to Sections 8 and 20, shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliates. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company or any of its affiliates at or subsequent to the date of termination of the Executive's employment shall be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

#### 8. LIMITATION ON BENEFITS

Notwithstanding anything in this Agreement to the contrary, if any payments or benefits to be made to or for the Executive's benefit, whether pursuant to this Agreement or otherwise, whether by the Company or another entity or person, would not be deductible by the Company due to limitations imposed by Section 162(m) of the Code, then such payments or benefits shall be deferred to the extent necessary until such time as such payments would be

deductible under Section 162(m) of the Code. Either the Company or the Executive may request a determination as to whether any payments would be subject to limitations on deductibility under Section 162(m) of the Code and, if so requested, such determination shall be made by independent legal counsel selected by the Company and approved by the Executive. Payment may be delayed pending any such determination, provided that the Executive shall be entitled to interest on any delayed payment at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code. The Executive shall also be entitled to interest on any payments deferred as a result of the limitations on deductibility under Section 162(m) of the Code at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

#### 9. PARACHUTE PAYMENTS

(a) Gross-Up Payment. In the event that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments under this Section 9(a)) (a "Payment") is determined to be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company shall pay to the Executive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such Payments.

(b) Accounting Firm. Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen LLP or such other certified public accounting firm as may be designated by Executive and which is satisfactory to the Company (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days after such determinations are requested by Executive or the Company. All fees and expenses of the Accounting Firm shall be born solely by the Company. The Company shall pay any Gross-Up Payment, as determined pursuant to this Section 9(b), to Executive within five days after the receipt by the Company of the Accounting Firm's determination. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and the Company shall pay such Underpayment promptly to or for the benefit of the Executive.

(c) Internal Revenue Service Claims. Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after Executive is informed in writing of such

claim and shall apprise the Company of the nature of such claim, and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) Give the Company any information reasonably requested by it relating to such claim,

(ii) Take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) Cooperate with the Company in good faith in order to contest such claim effectively, and

(iv) Permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection

with such contests and, at their sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the control by the Company of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Refunds. If , after the receipt by Executive of an amount advanced by the Company pursuant to Section 9(c), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to compliance by Company with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an

amount advanced by the Company pursuant to Section 9(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

#### 10. FULL SETTLEMENT

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 6(a)(iv), such amounts shall not be reduced whether or not Executive obtains other employment.

#### 11. SUCCESSORS

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or

assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, the "Company" shall mean the Company as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

## 12. ARBITRATION

(a) Because it is agreed that time will be of the essence in determining whether any payments are due to the Executive under this Agreement, the Executive may submit any claim for payment under this Agreement or dispute regarding the interpretation of this Agreement to arbitration. This right to select arbitration shall be solely that of the Executive, and the Executive may decide whether or not to arbitrate in his or her discretion. The "right to select arbitration" is not mandatory on the Executive, and the Executive may choose in lieu thereof to bring an action in an appropriate civil court. Once an arbitration is commenced, however, it may not be discontinued without the mutual consent of both parties to the arbitration. During the lifetime of the Executive only he or she can use the arbitration procedure set forth in this section.

(b) Any claim for arbitration may be submitted as follows: If the Executive disagrees with the Company regarding the interpretation of this Agreement and the claim is finally denied by the Company in whole or in part, such claim may be filed in writing with an arbitrator of the Executive's choice who is selected by the method described in the next three sentences. The first step of the selection shall consist of the Executive submitting a list of five potential arbitrators to the Company. Each of the five arbitrators must be either (1) a member of the National Academy of Arbitrators located in the State of California or (2) a retired California

Superior Court or Appellate Court judge. Within two weeks after receipt of the list, the Company shall select one of the five arbitrators as the arbitrator for the dispute in question. If the Company fails to select an arbitrator in a timely manner, the Executive shall then designate one of the five arbitrators as the arbitrator for the dispute in question.

(c) The arbitration hearing shall be held within thirty days (or as soon thereafter as possible) after the picking of the arbitrator. No continuance of the hearing shall be allowed without the mutual consent of the Executive and the Company. Absence from or nonparticipation at the hearing by either party shall not prevent the issuance of an award. Hearing procedures which will expedite the hearing may be ordered at the arbitrator's discretion, and the arbitrator may close the hearing at his or her discretion when sufficient evidence to satisfy issuance of an award has been presented.

(d) The arbitrator's award shall be rendered as expeditiously as possible and in no event later than thirty days after the close of the hearing. In the event the arbitrator finds that the Company has breached this Agreement, he or she shall order the Company to immediately take the necessary steps to remedy the breach. The award of the arbitrator shall be final and binding upon the parties. The award may be enforced in any appropriate court as soon as possible after it is rendered. If an action is brought to confirm the award, both the Company and the Executive agree that no appeal shall be taken by either party from any decision rendered in such action.

(e) The Company will be considered the prevailing party in a dispute if the arbitrator determines that the Company has not breached this Agreement. Otherwise, the Executive will be considered the prevailing party. In the event that the Company is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (excluding any attorneys'

fees incurred by the Company) including stenographic reporter, if employed, shall be paid by the Executive. In the event that Executive is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (including all attorneys' fees incurred by the Executive), including the fees of a stenographic reporter if employed, shall be paid by the Company.

13. GOVERNING LAW

The laws of California shall govern the validity and interpretation of this Agreement, with regard to conflicts of laws.

14. CAPTIONS

The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

15. AMENDMENT

This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

16. NOTICES

All notices and other communications regarding this Agreement shall be in writing and shall be hand delivered to the other party or sent by prepaid registered or certified mail, return receipt requested, addressed as follows:

If to the Executive: -----  
-----  
-----

If to the Company: Southern California Water Company  
630 East Foothill Boulevard  
San Dimas, CA 91773  
Attn: Secretary

or to such other address as either party shall have furnished to the other in writing. Notice and communications shall be effective when actually received by the addressee.

#### 17. SEVERABILITY

The lack of validity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

#### 18. WITHHOLDING TAXES

The Company may withhold required federal, state, local or foreign taxes from any amounts payable under this Agreement.

#### 19. NO WAIVER

The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have under this Agreement, including, without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right under this Agreement.

#### 20. AT-WILL EMPLOYMENT

The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company prior to the Change in Control Date is "at will" and, prior to the Change in Control Date, the Executive's employment may be terminated by either the Executive or the Company at any time, in which case the Executive shall have no

further rights under this Agreement. From and after the Change in Control Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

#### 21. COUNTERPARTS

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first written above in Los Angeles, California.

SOUTHERN CALIFORNIA WATER COMPANY

By /s/ Floyd E. Wicks  
-----  
Title President and C.E.O.

EXECUTIVE

/s/ Susan L. Conway  
-----

## AMENDED AND RESTATED CHANGE-IN-CONTROL AGREEMENT

This Amended and Restated Change-in-Control Agreement (the "Agreement") is dated as of October 25, 1999, is entered into by and between Denise L. Kruger (the "Executive") and Southern California Water Company, a California corporation (the "Company"), and amends and restates in its entirety the Change-in-Control Agreement dated as of October 27, 1998 among the Executive and the Company.

## RECITALS

The Company considers it essential to the best interest of the Company and its shareholders that the Executive be encouraged to remain with the Company and continue to devote full attention to the Company's business notwithstanding the possibility, threat or occurrence of a Change in Control (as defined in Section 3). The Company believes that it is in the best interest of the Company and its shareholders to reinforce and encourage the continued attention and dedication of the Executive and to diminish inevitable distractions arising from the possibility of a Change in Control. Accordingly, to assure the Company that it will have the Executive's undivided attention and services notwithstanding the possibility, threat or occurrence of a Change in Control, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Board of Directors of the Company has, at the recommendation of its Compensation Committee, caused the Company to enter into this Agreement.

## TERMS AND CONDITIONS

The Executive and the Company hereby agree to the following terms and conditions:

## 1. TERM OF AGREEMENT

If a Change in Control (as defined in Section 3) occurs on or before the expiration date of this Agreement and while the Executive is still an employee of the Company, then this Agreement will continue in effect for two years from the date of such Change in Control and, if the Executive's employment with the Company is terminated within such two-year period, this Agreement shall thereafter continue in effect until all of the obligations of the Company under this Agreement shall have been fulfilled. If no Change in Control occurs on or before December 31, 2000, this Agreement shall expire; provided, however that this Agreement shall be automatically extended for an additional two years to December 31, 2002 if (i) a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or American States Water Company, a California corporation ("AWR"), on or before the expiration date, or (ii) the Company has not delivered to you or you shall have not delivered to the Company written notice at least 60 days prior to the expiration date that such expiration date shall not be so extended. This Agreement shall continue to be automatically extended for an additional two-year period and each succeeding two-year period if a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or AWR or the Company or the Executive fails to give the notices by the time and in the manner described in this Section 1.

## 2. CHANGE IN CONTROL DATE

The "Change in Control Date" shall mean the first date during the term of this Agreement on which a Change in Control (as defined in Section 3) occurs; provided, however, that if a Change in Control occurs and if the Executive's employment with the Company is terminated after approval by the Board of Directors of the Company or AWR of a plan or agreement for a Change in Control but prior to the date on which the Change in Control occurs, the "Change in Control Date" shall mean the date immediately preceding the date of such termination.

## 3. CHANGE IN CONTROL

A "Change in Control" shall mean any of the following events:

(a) the dissolution or liquidation of either the Company or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(b) any sale, lease, exchange or other transfer (in one or a series of transactions) of all or substantially all of the assets of either the Company or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(c) any reorganization or merger of the Company or AWR, unless the holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing or surviving entity's voting securities immediately after the event;

(d) an acquisition by any person, entity or group acting in concert of more than 50% of the voting securities of the Company or AWR, unless the holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the acquirer's voting securities immediately after the acquisition; or

(e) a change of one-half or more of the members of the Board of Directors of the Company or AWR within a twelve-month period, unless the election or nomination for election by shareholders of new directors within such period constituting a majority of the applicable Board was approved by the vote of at least two-thirds of the directors then still in office who were in office at the beginning of the twelve-month period.

#### 4. EFFECTIVE PERIOD

For the purpose of this Agreement, the "Effective Period" is the period commencing on the Change in Control Date and ending on the date this Agreement terminates.

#### 5. TERMINATION OF EMPLOYMENT

(a) Death or Disability: The Executive's employment shall terminate automatically upon the Executive's death. If the Disability (as defined below) of the Executive occurs during the Effective Period, the Company may give the Executive written notice of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt,

the Executive shall not have returned to full-time performance of his or her duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from his or her duties with the Company on a full-time basis for 180 consecutive business days as a result of a physical or mental condition which prevents the Executive from performing the Executive's normal duties of employment and which is (i) determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative and/or (ii) entitles the Executive to the payment of long-term disability benefits from the Company's or AWR's long-term disability plan commencing no later than the Disability Effective Date.

(b) Cause: The Company may terminate the Executive's employment other than for Cause or Disability during the Effective Period as provided in Section 6(a). The Company may also terminate the Executive's employment during the Effective Period for Cause. For purposes of this Agreement, "Cause" shall be limited to the following:

(i) the Executive's failure to render services to the Company where such failure amounts to gross neglect or gross misconduct of the Executive's responsibility and duties,

(ii) the Executive's commission of an act of fraud or dishonesty against the Company or any affiliate of the Company, or

(iii) the Executive's conviction of a felony or other crime involving moral turpitude.

(c) Good Reason: The Executive's employment may be terminated by the Executive during the Effective Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the Change in Control Date, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to reappoint the Executive to a position held by the Executive on the Change in Control Date, except as a result of the termination of the Executive's employment by the Company for Cause or Disability, the death of the Executive, or the termination of the Executive's employment by the Executive other than for Good Reason;

(iii) reduction by the Company in the Executive's base salary as in effect on the date hereof or as the same may be increased from time-to-time;

(iv) the taking of any action by the Company (including the elimination of benefit plans without providing substitutes therefore or the reduction of the Executive's benefits thereunder) that would substantially diminish the aggregate value of the Executive's incentive awards and other fringe benefits including the

executive benefits and perquisites from the levels in effect prior to the Change in Control Date;

(v) the Company's requiring the Executive to be based at any office or location which increases the distance from the Executive's home to the office location by more than 35 miles from the distance in effect as of the Change in Control Date;

(vi) any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION

(a) Good Reason, Other Than for Cause or Disability: If the Company shall terminate the Executive's employment other than for Cause or Disability during the Effective Period, or the Executive shall terminate employment for Good Reason during the Effective Period, the Company agrees, subject to Section 8, to make the payments and provide the benefits described below:

(i) The Company shall pay to the Executive in a cash lump sum within 10 days from the date of the Executive's termination of employment an amount equal to the product of (A) and (B), where (A) is 2.99 and (B) is the Executive's annual base salary at the highest of the rate in effect at any time during the three years preceding the date of termination.

(ii) The Company shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the sum of (A) Executive's base salary through the date of termination, plus (B) any

compensation previously deferred by the Executive (together with any accrued earnings or interest thereon), plus (C) any accrued vacation pay, in each case to the extent not theretofore paid (the amounts referred to in this paragraph (ii) are hereinafter referred to as the "Accrued Obligations").

(iii) The Company shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the excess of (A) over (B), where (A) is equal to the single sum actuarial equivalent of what would be the Executive's accrued benefits under the terms of the Southern California Water Company Pension Plan (or any successor thereto), including any supplemental retirement plan providing additional pension benefits, (hereinafter together referred to as the "Pension Plan") at time of the Executive's termination of employment, without regard to whether such benefits are "vested" thereunder, if the Executive were credited with an additional two years of continuous service after the termination of Executive's employment with the Company at the Executive's highest annual rate of compensation covered by such Pension Plan within the three years preceding the date of the termination of the Executive's employment with the Company and (B) is equal to the single sum actuarial equivalent of the Executive's accrued benefits under the Pension Plan at the time of the Executive's termination of employment. The payment under this paragraph (iii) shall not extinguish any rights the Executive has to benefits under the Pension Plan. For purposes of this paragraph, "actuarial equivalent" shall be determined using the actuarial assumptions used under the Pension Plan for determining the

actuarial equivalence of different annuity forms of benefits. In no event shall the additional two years of continuous service referred to above cause the Executive to be deemed to be older than the Executive's actual age for any purpose under this Agreement.

(iv) For two years after the Executive's date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue to provide welfare benefits and fringe benefits and other perquisites to the Executive and/or the Executive's family at least equal to those which would have been provided to them if the Executive's employment had not been terminated (in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliates applicable generally to other peer executives and their families immediately preceding the date of the Executive's termination of employment); provided, however, that if the Executive becomes employed by another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for any retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until two years after the date of termination of employment and to have retired on the last day of such period. Following the period of

continued benefits referred to in this subsection, the Executive and the Executive's family shall be given the right provided in Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code"), to elect to continue benefits in all group medical plans. In the event that the Executive's participation in any of the plans, programs, practices or policies of the Company referred to in this subsection is barred by the terms of such plans, programs, practices or policies, the Company shall provide the Executive with benefits substantially similar to those which the Executive would be entitled as a participant in such plans, programs, practices or policies. At the end of the period of coverage, the Executive shall have the option to have assigned to the Executive, at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company and relating specifically to the Executive.

(v) The Company shall enable the Executive to purchase, at the end of the Effective Period, the automobile, if any, provided by the Company for the Executive's use at the time of the Executive's termination of employment at the wholesale value of such automobile at such time, as shown in the current addition of the National Auto Research Publication Blue Book. At the Executive's election, the Executive may retain any existing club memberships of the Executive purchased by the Company upon reimbursement to the Company of any membership costs paid by the Company.

(vi) To the extent not theretofore paid or provided, the Company shall timely pay or provide the Executive any other amounts or benefits required to be

paid or provided or which the Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company and its affiliates (such other amounts and benefits being hereinafter referred to as "Other Benefits") in accordance with the terms of such plan, program, policy, practice, contract or agreement.

(vii) The Executive shall be entitled to interest on any payments not paid on a timely basis as provided in this Section 6(a) at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

(b) Death: If the Executive's employment is terminated by reason of the Executive's death during the Effective Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a cash lump sum within 10 days of the date of the Executive's death.

(c) Disability: If the Executive's employment is terminated by reason of the Executive's Disability during the Effective Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a cash lump sum within 30 days of the Executive's termination of employment.

(d) Cause, Other than for Good Reason: If the Executive's employment shall be terminated for Cause during the Effective Period or, if the Executive voluntarily terminates

employment during the Effective Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and any benefits payable to Executive under a plan, policy, practice, etc., referred to in Section 7 below. Accrued Obligations shall be paid to the Executive in a cash lump sum within 60 days of the Executive's termination of employment.

#### 7. NON-EXCLUSIVITY OF RIGHTS

Subject to Section 8, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliates and for which the Executive may qualify, nor, subject to Sections 8 and 20, shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliates. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company or any of its affiliates at or subsequent to the date of termination of the Executive's employment shall be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

#### 8. LIMITATION ON BENEFITS

Notwithstanding anything in this Agreement to the contrary, if any payments or benefits to be made to or for the Executive's benefit, whether pursuant to this Agreement or otherwise, whether by the Company or another entity or person, would not be deductible by the Company due to limitations imposed by Section 162(m) of the Code, then such payments or benefits shall be deferred to the extent necessary until such time as such payments would be

deductible under Section 162(m) of the Code. Either the Company or the Executive may request a determination as to whether any payments would be subject to limitations on deductibility under Section 162(m) of the Code and, if so requested, such determination shall be made by independent legal counsel selected by the Company and approved by the Executive. Payment may be delayed pending any such determination, provided that the Executive shall be entitled to interest on any delayed payment at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code. The Executive shall also be entitled to interest on any payments deferred as a result of the limitations on deductibility under Section 162(m) of the Code at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

#### 9. PARACHUTE PAYMENTS

(a) Gross-Up Payment. In the event that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments under this Section 9(a)) (a "Payment") is determined to be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company shall pay to the Executive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such Payments.

(b) Accounting Firm. Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen LLP or such other certified public accounting firm as may be designated by Executive and which is satisfactory to the Company (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days after such determinations are requested by Executive or the Company. All fees and expenses of the Accounting Firm shall be born solely by the Company. The Company shall pay any Gross-Up Payment, as determined pursuant to this Section 9(b), to Executive within five days after the receipt by the Company of the Accounting Firm's determination. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and the Company shall pay such Underpayment promptly to or for the benefit of the Executive.

(c) Internal Revenue Service Claims. Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after Executive is informed in writing of such

claim and shall apprise the Company of the nature of such claim, and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) Give the Company any information reasonably requested by it relating to such claim,

(ii) Take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) Cooperate with the Company in good faith in order to contest such claim effectively, and

(iv) Permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection

with such contests and, at their sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the control by the Company of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Refunds. If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 9(c), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to compliance by Company with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an

amount advanced by the Company pursuant to Section 9(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

#### 10. FULL SETTLEMENT

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 6(a)(iv), such amounts shall not be reduced whether or not Executive obtains other employment.

#### 11. SUCCESSORS

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or

assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, the "Company" shall mean the Company as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

## 12. ARBITRATION

(a) Because it is agreed that time will be of the essence in determining whether any payments are due to the Executive under this Agreement, the Executive may submit any claim for payment under this Agreement or dispute regarding the interpretation of this Agreement to arbitration. This right to select arbitration shall be solely that of the Executive, and the Executive may decide whether or not to arbitrate in his or her discretion. The "right to select arbitration" is not mandatory on the Executive, and the Executive may choose in lieu thereof to bring an action in an appropriate civil court. Once an arbitration is commenced, however, it may not be discontinued without the mutual consent of both parties to the arbitration. During the lifetime of the Executive only he or she can use the arbitration procedure set forth in this section.

(b) Any claim for arbitration may be submitted as follows: If the Executive disagrees with the Company regarding the interpretation of this Agreement and the claim is finally denied by the Company in whole or in part, such claim may be filed in writing with an arbitrator of the Executive's choice who is selected by the method described in the next three sentences. The first step of the selection shall consist of the Executive submitting a list of five potential arbitrators to the Company. Each of the five arbitrators must be either (1) a member of the National Academy of Arbitrators located in the State of California or (2) a retired California

Superior Court or Appellate Court judge. Within two weeks after receipt of the list, the Company shall select one of the five arbitrators as the arbitrator for the dispute in question. If the Company fails to select an arbitrator in a timely manner, the Executive shall then designate one of the five arbitrators as the arbitrator for the dispute in question.

(c) The arbitration hearing shall be held within thirty days (or as soon thereafter as possible) after the picking of the arbitrator. No continuance of the hearing shall be allowed without the mutual consent of the Executive and the Company. Absence from or nonparticipation at the hearing by either party shall not prevent the issuance of an award. Hearing procedures which will expedite the hearing may be ordered at the arbitrator's discretion, and the arbitrator may close the hearing at his or her discretion when sufficient evidence to satisfy issuance of an award has been presented.

(d) The arbitrator's award shall be rendered as expeditiously as possible and in no event later than thirty days after the close of the hearing. In the event the arbitrator finds that the Company has breached this Agreement, he or she shall order the Company to immediately take the necessary steps to remedy the breach. The award of the arbitrator shall be final and binding upon the parties. The award may be enforced in any appropriate court as soon as possible after it is rendered. If an action is brought to confirm the award, both the Company and the Executive agree that no appeal shall be taken by either party from any decision rendered in such action.

(e) The Company will be considered the prevailing party in a dispute if the arbitrator determines that the Company has not breached this Agreement. Otherwise, the Executive will be considered the prevailing party. In the event that the Company is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (excluding any attorneys'

fees incurred by the Company) including stenographic reporter, if employed, shall be paid by the Executive. In the event that Executive is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (including all attorneys' fees incurred by the Executive), including the fees of a stenographic reporter if employed, shall be paid by the Company.

13. GOVERNING LAW

The laws of California shall govern the validity and interpretation of this Agreement, with regard to conflicts of laws.

14. CAPTIONS

The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

15. AMENDMENT

This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

16. NOTICES

All notices and other communications regarding this Agreement shall be in writing and shall be hand delivered to the other party or sent by prepaid registered or certified mail, return receipt requested, addressed as follows:

If to the Executive: -----  
-----  
-----

If to the Company: Southern California Water Company  
630 East Foothill Boulevard  
San Dimas, CA 91773  
Attn: Secretary

or to such other address as either party shall have furnished to the other in writing. Notice and communications shall be effective when actually received by the addressee.

#### 17. SEVERABILITY

The lack of validity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

#### 18. WITHHOLDING TAXES

The Company may withhold required federal, state, local or foreign taxes from any amounts payable under this Agreement.

#### 19. NO WAIVER

The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have under this Agreement, including, without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right under this Agreement.

#### 20. AT-WILL EMPLOYMENT

The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company prior to the Change in Control Date is "at will" and, prior to the Change in Control Date, the Executive's employment may be terminated by either the Executive or the Company at any time, in which case the Executive shall have no

further rights under this Agreement. From and after the Change in Control Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

#### 21. COUNTERPARTS

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first written above in Los Angeles, California.

SOUTHERN CALIFORNIA WATER COMPANY

By /s/ Floyd E. Wicks  
-----  
Title President and C.E.O.

EXECUTIVE

/s/ Denise L. Kruger  
-----

## AMENDED AND RESTATED CHANGE-IN-CONTROL AGREEMENT

This Amended and Restated Change-in-Control Agreement (the "Agreement") is dated as of October 25, 1999, is entered into by and between James B. Gallagher (the "Executive") and Southern California Water Company, a California corporation (the "Company"), and amends and restates in its entirety the Change-in-Control Agreement dated as of October 27, 1998 among the Executive and the Company.

## RECITALS

The Company considers it essential to the best interest of the Company and its shareholders that the Executive be encouraged to remain with the Company and continue to devote full attention to the Company's business notwithstanding the possibility, threat or occurrence of a Change in Control (as defined in Section 3). The Company believes that it is in the best interest of the Company and its shareholders to reinforce and encourage the continued attention and dedication of the Executive and to diminish inevitable distractions arising from the possibility of a Change in Control. Accordingly, to assure the Company that it will have the Executive's undivided attention and services notwithstanding the possibility, threat or occurrence of a Change in Control, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Board of Directors of the Company has, at the recommendation of its Compensation Committee, caused the Company to enter into this Agreement.

## TERMS AND CONDITIONS

The Executive and the Company hereby agree to the following terms and conditions:

## 1. TERM OF AGREEMENT

If a Change in Control (as defined in Section 3) occurs on or before the expiration date of this Agreement and while the Executive is still an employee of the Company, then this Agreement will continue in effect for two years from the date of such Change in Control and, if the Executive's employment with the Company is terminated within such two-year period, this Agreement shall thereafter continue in effect until all of the obligations of the Company under this Agreement shall have been fulfilled. If no Change in Control occurs on or before December 31, 2000, this Agreement shall expire; provided, however that this Agreement shall be automatically extended for an additional two years to December 31, 2002 if (i) a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or American States Water Company, a California corporation ("AWR"), on or before the expiration date, or (ii) the Company has not delivered to you or you shall have not delivered to the Company written notice at least 60 days prior to the expiration date that such expiration date shall not be so extended. This Agreement shall continue to be automatically extended for an additional two-year period and each succeeding two-year period if a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or AWR or the Company or the Executive fails to give the notices by the time and in the manner described in this Section 1.

## 2. CHANGE IN CONTROL DATE

The "Change in Control Date" shall mean the first date during the term of this Agreement on which a Change in Control (as defined in Section 3) occurs; provided, however, that if a Change in Control occurs and if the Executive's employment with the Company is terminated after approval by the Board of Directors of the Company or AWR of a plan or agreement for a Change in Control but prior to the date on which the Change in Control occurs, the "Change in Control Date" shall mean the date immediately preceding the date of such termination.

## 3. CHANGE IN CONTROL

A "Change in Control" shall mean any of the following events:

(a) the dissolution or liquidation of either the Company or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(b) any sale, lease, exchange or other transfer (in one or a series of transactions) of all or substantially all of the assets of either the Company or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(c) any reorganization or merger of the Company or AWR, unless the holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing or surviving entity's voting securities immediately after the event;

(d) an acquisition by any person, entity or group acting in concert of more than 50% of the voting securities of the Company or AWR, unless the holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the acquirer's voting securities immediately after the acquisition; or

(e) a change of one-half or more of the members of the Board of Directors of the Company or AWR within a twelve-month period, unless the election or nomination for election by shareholders of new directors within such period constituting a majority of the applicable Board was approved by the vote of at least two-thirds of the directors then still in office who were in office at the beginning of the twelve-month period.

#### 4. EFFECTIVE PERIOD

For the purpose of this Agreement, the "Effective Period" is the period commencing on the Change in Control Date and ending on the date this Agreement terminates.

#### 5. TERMINATION OF EMPLOYMENT

(a) Death or Disability: The Executive's employment shall terminate automatically upon the Executive's death. If the Disability (as defined below) of the Executive occurs during the Effective Period, the Company may give the Executive written notice of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt,

the Executive shall not have returned to full-time performance of his or her duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from his or her duties with the Company on a full-time basis for 180 consecutive business days as a result of a physical or mental condition which prevents the Executive from performing the Executive's normal duties of employment and which is (i) determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative and/or (ii) entitles the Executive to the payment of long-term disability benefits from the Company's or AWR's long-term disability plan commencing no later than the Disability Effective Date.

(b) Cause: The Company may terminate the Executive's employment other than for Cause or Disability during the Effective Period as provided in Section 6(a). The Company may also terminate the Executive's employment during the Effective Period for Cause. For purposes of this Agreement, "Cause" shall be limited to the following:

(i) the Executive's failure to render services to the Company where such failure amounts to gross neglect or gross misconduct of the Executive's responsibility and duties,

(ii) the Executive's commission of an act of fraud or dishonesty against the Company or any affiliate of the Company, or

(iii) the Executive's conviction of a felony or other crime involving moral turpitude.

(c) Good Reason: The Executive's employment may be terminated by the Executive during the Effective Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the Change in Control Date, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to reappoint the Executive to a position held by the Executive on the Change in Control Date, except as a result of the termination of the Executive's employment by the Company for Cause or Disability, the death of the Executive, or the termination of the Executive's employment by the Executive other than for Good Reason;

(iii) reduction by the Company in the Executive's base salary as in effect on the date hereof or as the same may be increased from time-to-time; (iv) the taking of any action by the Company (including the elimination of benefit plans without providing substitutes therefore or the reduction of the Executive's benefits thereunder) that would substantially diminish the aggregate value of the Executive's incentive awards and other fringe benefits including the

executive benefits and perquisites from the levels in effect prior to the Change in Control Date;

(v) the Company's requiring the Executive to be based at any office or location which increases the distance from the Executive's home to the office location by more than 35 miles from the distance in effect as of the Change in Control Date;

(vi) any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

#### 6. OBLIGATIONS OF THE COMPANY UPON TERMINATION

(a) Good Reason, Other Than for Cause or Disability: If the Company shall terminate the Executive's employment other than for Cause or Disability during the Effective Period, or the Executive shall terminate employment for Good Reason during the Effective Period, the Company agrees, subject to Section 8, to make the payments and provide the benefits described below:

(i) The Company shall pay to the Executive in a cash lump sum within 10 days from the date of the Executive's termination of employment an amount equal to the product of (A) and (B), where (A) is 2.99 and (B) is the Executive's annual base salary at the highest of the rate in effect at any time during the three years preceding the date of termination. (ii) The Company shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the sum of (A) Executive's base salary through the date of termination, plus (B) any

compensation previously deferred by the Executive (together with any accrued earnings or interest thereon), plus (C) any accrued vacation pay, in each case to the extent not theretofore paid (the amounts referred to in this paragraph (ii) are hereinafter referred to as the "Accrued Obligations").

(iii) The Company shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the excess of (A) over (B), where (A) is equal to the single sum actuarial equivalent of what would be the Executive's accrued benefits under the terms of the Southern California Water Company Pension Plan (or any successor thereto), including any supplemental retirement plan providing additional pension benefits, (hereinafter together referred to as the "Pension Plan") at time of the Executive's termination of employment, without regard to whether such benefits are "vested" thereunder, if the Executive were credited with an additional two years of continuous service after the termination of Executive's employment with the Company at the Executive's highest annual rate of compensation covered by such Pension Plan within the three years preceding the date of the termination of the Executive's employment with the Company and (B) is equal to the single sum actuarial equivalent of the Executive's accrued benefits under the Pension Plan at the time of the Executive's termination of employment. The payment under this paragraph (iii) shall not extinguish any rights the Executive has to benefits under the Pension Plan. For purposes of this paragraph, "actuarial equivalent" shall be determined using the actuarial assumptions used under the Pension Plan for determining the

actuarial equivalence of different annuity forms of benefits. In no event shall the additional two years of continuous service referred to above cause the Executive to be deemed to be older than the Executive's actual age for any purpose under this Agreement.

(iv) For two years after the Executive's date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue to provide welfare benefits and fringe benefits and other perquisites to the Executive and/or the Executive's family at least equal to those which would have been provided to them if the Executive's employment had not been terminated (in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliates applicable generally to other peer executives and their families immediately preceding the date of the Executive's termination of employment); provided, however, that if the Executive becomes employed by another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for any retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until two years after the date of termination of employment and to have retired on the last day of such period. Following the period of

continued benefits referred to in this subsection, the Executive and the Executive's family shall be given the right provided in Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code"), to elect to continue benefits in all group medical plans. In the event that the Executive's participation in any of the plans, programs, practices or policies of the Company referred to in this subsection is barred by the terms of such plans, programs, practices or policies, the Company shall provide the Executive with benefits substantially similar to those which the Executive would be entitled as a participant in such plans, programs, practices or policies. At the end of the period of coverage, the Executive shall have the option to have assigned to the Executive, at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company and relating specifically to the Executive.

(v) The Company shall enable the Executive to purchase, at the end of the Effective Period, the automobile, if any, provided by the Company for the Executive's use at the time of the Executive's termination of employment at the wholesale value of such automobile at such time, as shown in the current addition of the National Auto Research Publication Blue Book. At the Executive's election, the Executive may retain any existing club memberships of the Executive purchased by the Company upon reimbursement to the Company of any membership costs paid by the Company.

(vi) To the extent not theretofore paid or provided, the Company shall timely pay or provide the Executive any other amounts or benefits required to be

paid or provided or which the Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company and its affiliates (such other amounts and benefits being hereinafter referred to as "Other Benefits") in accordance with the terms of such plan, program, policy, practice, contract or agreement.

(vii) The Executive shall be entitled to interest on any payments not paid on a timely basis as provided in this Section 6(a) at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

(b) Death: If the Executive's employment is terminated by reason of the Executive's death during the Effective Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a cash lump sum within 10 days of the date of the Executive's death.

(c) Disability: If the Executive's employment is terminated by reason of the Executive's Disability during the Effective Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a cash lump sum within 30 days of the Executive's termination of employment.

(d) Cause, Other than for Good Reason: If the Executive's employment shall be terminated for Cause during the Effective Period or, if the Executive voluntarily terminates

employment during the Effective Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and any benefits payable to Executive under a plan, policy, practice, etc., referred to in Section 7 below. Accrued Obligations shall be paid to the Executive in a cash lump sum within 60 days of the Executive's termination of employment.

#### 7. NON-EXCLUSIVITY OF RIGHTS

Subject to Section 8, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliates and for which the Executive may qualify, nor, subject to Sections 8 and 20, shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliates. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company or any of its affiliates at or subsequent to the date of termination of the Executive's employment shall be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

#### 8. LIMITATION ON BENEFITS

Notwithstanding anything in this Agreement to the contrary, if any payments or benefits to be made to or for the Executive's benefit, whether pursuant to this Agreement or otherwise, whether by the Company or another entity or person, would not be deductible by the Company due to limitations imposed by Section 162(m) of the Code, then such payments or benefits shall be deferred to the extent necessary until such time as such payments would be

deductible under Section 162(m) of the Code. Either the Company or the Executive may request a determination as to whether any payments would be subject to limitations on deductibility under Section 162(m) of the Code and, if so requested, such determination shall be made by independent legal counsel selected by the Company and approved by the Executive. Payment may be delayed pending any such determination, provided that the Executive shall be entitled to interest on any delayed payment at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code. The Executive shall also be entitled to interest on any payments deferred as a result of the limitations on deductibility under Section 162(m) of the Code at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

#### 9. PARACHUTE PAYMENTS

(a) Gross-Up Payment. In the event that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments under this Section 9(a)) (a "Payment") is determined to be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company shall pay to the Executive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such Payments.

(b) Accounting Firm. Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen LLP or such other certified public accounting firm as may be designated by Executive and which is satisfactory to the Company (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days after such determinations are requested by Executive or the Company. All fees and expenses of the Accounting Firm shall be born solely by the Company. The Company shall pay any Gross-Up Payment, as determined pursuant to this Section 9(b), to Executive within five days after the receipt by the Company of the Accounting Firm's determination. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and the Company shall pay such Underpayment promptly to or for the benefit of the Executive.

(c) Internal Revenue Service Claims. Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after Executive is informed in writing of such

claim and shall apprise the Company of the nature of such claim, and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) Give the Company any information reasonably requested by it relating to such claim,

(ii) Take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) Cooperate with the Company in good faith in order to contest such claim effectively, and

(iv) Permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection

with such contests and, at their sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the control by the Company of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Refunds. If , after the receipt by Executive of an amount advanced by the Company pursuant to Section 9(c), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to compliance by Company with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an

amount advanced by the Company pursuant to Section 9(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

#### 10. FULL SETTLEMENT

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 6(a)(iv), such amounts shall not be reduced whether or not Executive obtains other employment.

#### 11. SUCCESSORS

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or

assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, the "Company" shall mean the Company as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

## 12. ARBITRATION

(a) Because it is agreed that time will be of the essence in determining whether any payments are due to the Executive under this Agreement, the Executive may submit any claim for payment under this Agreement or dispute regarding the interpretation of this Agreement to arbitration. This right to select arbitration shall be solely that of the Executive, and the Executive may decide whether or not to arbitrate in his or her discretion. The "right to select arbitration" is not mandatory on the Executive, and the Executive may choose in lieu thereof to bring an action in an appropriate civil court. Once an arbitration is commenced, however, it may not be discontinued without the mutual consent of both parties to the arbitration. During the lifetime of the Executive only he or she can use the arbitration procedure set forth in this section.

(b) Any claim for arbitration may be submitted as follows: If the Executive disagrees with the Company regarding the interpretation of this Agreement and the claim is finally denied by the Company in whole or in part, such claim may be filed in writing with an arbitrator of the Executive's choice who is selected by the method described in the next three sentences. The first step of the selection shall consist of the Executive submitting a list of five potential arbitrators to the Company. Each of the five arbitrators must be either (1) a member of the National Academy of Arbitrators located in the State of California or (2) a retired California

Superior Court or Appellate Court judge. Within two weeks after receipt of the list, the Company shall select one of the five arbitrators as the arbitrator for the dispute in question. If the Company fails to select an arbitrator in a timely manner, the Executive shall then designate one of the five arbitrators as the arbitrator for the dispute in question.

(c) The arbitration hearing shall be held within thirty days (or as soon thereafter as possible) after the picking of the arbitrator. No continuance of the hearing shall be allowed without the mutual consent of the Executive and the Company. Absence from or nonparticipation at the hearing by either party shall not prevent the issuance of an award. Hearing procedures which will expedite the hearing may be ordered at the arbitrator's discretion, and the arbitrator may close the hearing at his or her discretion when sufficient evidence to satisfy issuance of an award has been presented.

(d) The arbitrator's award shall be rendered as expeditiously as possible and in no event later than thirty days after the close of the hearing. In the event the arbitrator finds that the Company has breached this Agreement, he or she shall order the Company to immediately take the necessary steps to remedy the breach. The award of the arbitrator shall be final and binding upon the parties. The award may be enforced in any appropriate court as soon as possible after it is rendered. If an action is brought to confirm the award, both the Company and the Executive agree that no appeal shall be taken by either party from any decision rendered in such action.

(e) The Company will be considered the prevailing party in a dispute if the arbitrator determines that the Company has not breached this Agreement. Otherwise, the Executive will be considered the prevailing party. In the event that the Company is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (excluding any attorneys'

fees incurred by the Company) including stenographic reporter, if employed, shall be paid by the Executive. In the event that Executive is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (including all attorneys' fees incurred by the Executive), including the fees of a stenographic reporter if employed, shall be paid by the Company.

13. GOVERNING LAW

The laws of California shall govern the validity and interpretation of this Agreement, with regard to conflicts of laws.

14. CAPTIONS

The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

15. AMENDMENT

This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

16. NOTICES

All notices and other communications regarding this Agreement shall be in writing and shall be hand delivered to the other party or sent by prepaid registered or certified mail, return receipt requested, addressed as follows:

If to the Executive: -----  
-----  
-----

If to the Company: Southern California Water Company  
630 East Foothill Boulevard  
San Dimas, CA 91773  
Attn: Secretary

or to such other address as either party shall have furnished to the other in writing. Notice and communications shall be effective when actually received by the addressee.

#### 17. SEVERABILITY

The lack of validity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

#### 18. WITHHOLDING TAXES

The Company may withhold required federal, state, local or foreign taxes from any amounts payable under this Agreement.

#### 19. NO WAIVER

The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have under this Agreement, including, without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right under this Agreement.

#### 20. AT-WILL EMPLOYMENT

The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company prior to the Change in Control Date is "at will" and, prior to the Change in Control Date, the Executive's employment may be terminated by either the Executive or the Company at any time, in which case the Executive shall have no

further rights under this Agreement. From and after the Change in Control Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

#### 21. COUNTERPARTS

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first written above in Los Angeles, California.

SOUTHERN CALIFORNIA WATER COMPANY

By /s/ Floyd E. Wicks  
-----  
Title President and C.E.O.

EXECUTIVE

/s/ James B. Gallagher  
-----

## AMENDED AND RESTATED CHANGE-IN-CONTROL AGREEMENT

This Amended and Restated Change-in-Control Agreement (the "Agreement") is dated as of October 25, 1999, is entered into by and between Donald K. Sadoris (the "Executive") and Southern California Water Company, a California corporation (the "Company"), and amends and restates in its entirety the Change-in-Control Agreement dated as of October 27, 1998 among the Executive and the Company.

## RECITALS

The Company considers it essential to the best interest of the Company and its shareholders that the Executive be encouraged to remain with the Company and continue to devote full attention to the Company's business notwithstanding the possibility, threat or occurrence of a Change in Control (as defined in Section 3). The Company believes that it is in the best interest of the Company and its shareholders to reinforce and encourage the continued attention and dedication of the Executive and to diminish inevitable distractions arising from the possibility of a Change in Control. Accordingly, to assure the Company that it will have the Executive's undivided attention and services notwithstanding the possibility, threat or occurrence of a Change in Control, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Board of Directors of the Company has, at the recommendation of its Compensation Committee, caused the Company to enter into this Agreement.

## TERMS AND CONDITIONS

The Executive and the Company hereby agree to the following terms and conditions:

## 1. TERM OF AGREEMENT

If a Change in Control (as defined in Section 3) occurs on or before the expiration date of this Agreement and while the Executive is still an employee of the Company, then this Agreement will continue in effect for two years from the date of such Change in Control and, if the Executive's employment with the Company is terminated within such two-year period, this Agreement shall thereafter continue in effect until all of the obligations of the Company under this Agreement shall have been fulfilled. If no Change in Control occurs on or before December 31, 2000, this Agreement shall expire; provided, however that this Agreement shall be automatically extended for an additional two years to December 31, 2002 if (i) a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or American States Water Company, a California corporation ("AWR"), on or before the expiration date, or (ii) the Company has not delivered to you or you shall have not delivered to the Company written notice at least 60 days prior to the expiration date that such expiration date shall not be so extended. This Agreement shall continue to be automatically extended for an additional two-year period and each succeeding two-year period if a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or AWR or the Company or the Executive fails to give the notices by the time and in the manner described in this Section 1.

## 2. CHANGE IN CONTROL DATE

The "Change in Control Date" shall mean the first date during the term of this Agreement on which a Change in Control (as defined in Section 3) occurs; provided, however, that if a Change in Control occurs and if the Executive's employment with the Company is terminated after approval by the Board of Directors of the Company or AWR of a plan or agreement for a Change in Control but prior to the date on which the Change in Control occurs, the "Change in Control Date" shall mean the date immediately preceding the date of such termination.

## 3. CHANGE IN CONTROL

A "Change in Control" shall mean any of the following events:

(a) the dissolution or liquidation of either the Company or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(b) any sale, lease, exchange or other transfer (in one or a series of transactions) of all or substantially all of the assets of either the Company or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(c) any reorganization or merger of the Company or AWR, unless the holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing or surviving entity's voting securities immediately after the event;

(d) an acquisition by any person, entity or group acting in concert of more than 50% of the voting securities of the Company or AWR, unless the holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the acquirer's voting securities immediately after the acquisition; or

(e) a change of one-half or more of the members of the Board of Directors of the Company or AWR within a twelve-month period, unless the election or nomination for election by shareholders of new directors within such period constituting a majority of the applicable Board was approved by the vote of at least two-thirds of the directors then still in office who were in office at the beginning of the twelve-month period.

#### 4. EFFECTIVE PERIOD

For the purpose of this Agreement, the "Effective Period" is the period commencing on the Change in Control Date and ending on the date this Agreement terminates.

#### 5. TERMINATION OF EMPLOYMENT

(a) Death or Disability: The Executive's employment shall terminate automatically upon the Executive's death. If the Disability (as defined below) of the Executive occurs during the Effective Period, the Company may give the Executive written notice of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt,

the Executive shall not have returned to full-time performance of his or her duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from his or her duties with the Company on a full-time basis for 180 consecutive business days as a result of a physical or mental condition which prevents the Executive from performing the Executive's normal duties of employment and which is (i) determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative and/or (ii) entitles the Executive to the payment of long-term disability benefits from the Company's or AWR's long-term disability plan commencing no later than the Disability Effective Date.

(b) Cause: The Company may terminate the Executive's employment other than for Cause or Disability during the Effective Period as provided in Section 6(a). The Company may also terminate the Executive's employment during the Effective Period for Cause. For purposes of this Agreement, "Cause" shall be limited to the following:

(i) the Executive's failure to render services to the Company where such failure amounts to gross neglect or gross misconduct of the Executive's responsibility and duties,

(ii) the Executive's commission of an act of fraud or dishonesty against the Company or any affiliate of the Company, or

(iii) the Executive's conviction of a felony or other crime involving moral turpitude.

(c) Good Reason: The Executive's employment may be terminated by the Executive during the Effective Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the Change in Control Date, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to reappoint the Executive to a position held by the Executive on the Change in Control Date, except as a result of the termination of the Executive's employment by the Company for Cause or Disability, the death of the Executive, or the termination of the Executive's employment by the Executive other than for Good Reason;

(iii) reduction by the Company in the Executive's base salary as in effect on the date hereof or as the same may be increased from time-to-time;

(iv) the taking of any action by the Company (including the elimination of benefit plans without providing substitutes therefore or the reduction of the Executive's benefits thereunder) that would substantially diminish the aggregate value of the Executive's incentive awards and other fringe benefits including the

executive benefits and perquisites from the levels in effect prior to the Change in Control Date;

(v) the Company's requiring the Executive to be based at any office or location which increases the distance from the Executive's home to the office location by more than 35 miles from the distance in effect as of the Change in Control Date;

(vi) any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

#### 6. OBLIGATIONS OF THE COMPANY UPON TERMINATION

(a) Good Reason, Other Than for Cause or Disability: If the Company shall terminate the Executive's employment other than for Cause or Disability during the Effective Period, or the Executive shall terminate employment for Good Reason during the Effective Period, the Company agrees, subject to Section 8, to make the payments and provide the benefits described below:

(i) The Company shall pay to the Executive in a cash lump sum within 10 days from the date of the Executive's termination of employment an amount equal to the product of (A) and (B), where (A) is 2.99 and (B) is the Executive's annual base salary at the highest of the rate in effect at any time during the three years preceding the date of termination.

(ii) The Company shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the sum of (A) Executive's base salary through the date of termination, plus (B) any

compensation previously deferred by the Executive (together with any accrued earnings or interest thereon), plus (C) any accrued vacation pay, in each case to the extent not theretofore paid (the amounts referred to in this paragraph (ii) are hereinafter referred to as the "Accrued Obligations").

(iii) The Company shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the excess of (A) over (B), where (A) is equal to the single sum actuarial equivalent of what would be the Executive's accrued benefits under the terms of the Southern California Water Company Pension Plan (or any successor thereto), including any supplemental retirement plan providing additional pension benefits, (hereinafter together referred to as the "Pension Plan") at time of the Executive's termination of employment, without regard to whether such benefits are "vested" thereunder, if the Executive were credited with an additional two years of continuous service after the termination of Executive's employment with the Company at the Executive's highest annual rate of compensation covered by such Pension Plan within the three years preceding the date of the termination of the Executive's employment with the Company and (B) is equal to the single sum actuarial equivalent of the Executive's accrued benefits under the Pension Plan at the time of the Executive's termination of employment. The payment under this paragraph (iii) shall not extinguish any rights the Executive has to benefits under the Pension Plan. For purposes of this paragraph, "actuarial equivalent" shall be determined using the actuarial assumptions used under the Pension Plan for determining the

actuarial equivalence of different annuity forms of benefits. In no event shall the additional two years of continuous service referred to above cause the Executive to be deemed to be older than the Executive's actual age for any purpose under this Agreement.

(iv) For two years after the Executive's date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue to provide welfare benefits and fringe benefits and other perquisites to the Executive and/or the Executive's family at least equal to those which would have been provided to them if the Executive's employment had not been terminated (in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliates applicable generally to other peer executives and their families immediately preceding the date of the Executive's termination of employment); provided, however, that if the Executive becomes employed by another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for any retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until two years after the date of termination of employment and to have retired on the last day of such period. Following the period of

continued benefits referred to in this subsection, the Executive and the Executive's family shall be given the right provided in Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code"), to elect to continue benefits in all group medical plans. In the event that the Executive's participation in any of the plans, programs, practices or policies of the Company referred to in this subsection is barred by the terms of such plans, programs, practices or policies, the Company shall provide the Executive with benefits substantially similar to those which the Executive would be entitled as a participant in such plans, programs, practices or policies. At the end of the period of coverage, the Executive shall have the option to have assigned to the Executive, at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company and relating specifically to the Executive.

(v) The Company shall enable the Executive to purchase, at the end of the Effective Period, the automobile, if any, provided by the Company for the Executive's use at the time of the Executive's termination of employment at the wholesale value of such automobile at such time, as shown in the current addition of the National Auto Research Publication Blue Book. At the Executive's election, the Executive may retain any existing club memberships of the Executive purchased by the Company upon reimbursement to the Company of any membership costs paid by the Company.

(vi) To the extent not theretofore paid or provided, the Company shall timely pay or provide the Executive any other amounts or benefits required to be

paid or provided or which the Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company and its affiliates (such other amounts and benefits being hereinafter referred to as "Other Benefits") in accordance with the terms of such plan, program, policy, practice, contract or agreement.

(vii) The Executive shall be entitled to interest on any payments not paid on a timely basis as provided in this Section 6(a) at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

(b) Death: If the Executive's employment is terminated by reason of the Executive's death during the Effective Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a cash lump sum within 10 days of the date of the Executive's death.

(c) Disability: If the Executive's employment is terminated by reason of the Executive's Disability during the Effective Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a cash lump sum within 30 days of the Executive's termination of employment.

(d) Cause, Other than for Good Reason: If the Executive's employment shall be terminated for Cause during the Effective Period or, if the Executive voluntarily terminates

employment during the Effective Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and any benefits payable to Executive under a plan, policy, practice, etc., referred to in Section 7 below. Accrued Obligations shall be paid to the Executive in a cash lump sum within 60 days of the Executive's termination of employment.

#### 7. NON-EXCLUSIVITY OF RIGHTS

Subject to Section 8, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliates and for which the Executive may qualify, nor, subject to Sections 8 and 20, shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliates. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company or any of its affiliates at or subsequent to the date of termination of the Executive's employment shall be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

#### 8. LIMITATION ON BENEFITS

Notwithstanding anything in this Agreement to the contrary, if any payments or benefits to be made to or for the Executive's benefit, whether pursuant to this Agreement or otherwise, whether by the Company or another entity or person, would not be deductible by the Company due to limitations imposed by Section 162(m) of the Code, then such payments or benefits shall be deferred to the extent necessary until such time as such payments would be

deductible under Section 162(m) of the Code. Either the Company or the Executive may request a determination as to whether any payments would be subject to limitations on deductibility under Section 162(m) of the Code and, if so requested, such determination shall be made by independent legal counsel selected by the Company and approved by the Executive. Payment may be delayed pending any such determination, provided that the Executive shall be entitled to interest on any delayed payment at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code. The Executive shall also be entitled to interest on any payments deferred as a result of the limitations on deductibility under Section 162(m) of the Code at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

#### 9. PARACHUTE PAYMENTS

(a) Gross-Up Payment. In the event that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments under this Section 9(a)) (a "Payment") is determined to be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company shall pay to the Executive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such Payments.

(b) Accounting Firm. Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen LLP or such other certified public accounting firm as may be designated by Executive and which is satisfactory to the Company (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days after such determinations are requested by Executive or the Company. All fees and expenses of the Accounting Firm shall be born solely by the Company. The Company shall pay any Gross-Up Payment, as determined pursuant to this Section 9(b), to Executive within five days after the receipt by the Company of the Accounting Firm's determination. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and the Company shall pay such Underpayment promptly to or for the benefit of the Executive.

(c) Internal Revenue Service Claims. Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after Executive is informed in writing of such

claim and shall apprise the Company of the nature of such claim, and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) Give the Company any information reasonably requested by it relating to such claim,

(ii) Take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) Cooperate with the Company in good faith in order to contest such claim effectively, and

(iv) Permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection

with such contests and, at their sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the control by the Company of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Refunds. If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 9(c), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to compliance by Company with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an

amount advanced by the Company pursuant to Section 9(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

#### 10. FULL SETTLEMENT

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 6(a)(iv), such amounts shall not be reduced whether or not Executive obtains other employment.

#### 11. SUCCESSORS

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or

assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, the "Company" shall mean the Company as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

## 12. ARBITRATION

(a) Because it is agreed that time will be of the essence in determining whether any payments are due to the Executive under this Agreement, the Executive may submit any claim for payment under this Agreement or dispute regarding the interpretation of this Agreement to arbitration. This right to select arbitration shall be solely that of the Executive, and the Executive may decide whether or not to arbitrate in his or her discretion. The "right to select arbitration" is not mandatory on the Executive, and the Executive may choose in lieu thereof to bring an action in an appropriate civil court. Once an arbitration is commenced, however, it may not be discontinued without the mutual consent of both parties to the arbitration. During the lifetime of the Executive only he or she can use the arbitration procedure set forth in this section.

(b) Any claim for arbitration may be submitted as follows: If the Executive disagrees with the Company regarding the interpretation of this Agreement and the claim is finally denied by the Company in whole or in part, such claim may be filed in writing with an arbitrator of the Executive's choice who is selected by the method described in the next three sentences. The first step of the selection shall consist of the Executive submitting a list of five potential arbitrators to the Company. Each of the five arbitrators must be either (1) a member of the National Academy of Arbitrators located in the State of California or (2) a retired California

Superior Court or Appellate Court judge. Within two weeks after receipt of the list, the Company shall select one of the five arbitrators as the arbitrator for the dispute in question. If the Company fails to select an arbitrator in a timely manner, the Executive shall then designate one of the five arbitrators as the arbitrator for the dispute in question.

(c) The arbitration hearing shall be held within thirty days (or as soon thereafter as possible) after the picking of the arbitrator. No continuance of the hearing shall be allowed without the mutual consent of the Executive and the Company. Absence from or nonparticipation at the hearing by either party shall not prevent the issuance of an award. Hearing procedures which will expedite the hearing may be ordered at the arbitrator's discretion, and the arbitrator may close the hearing at his or her discretion when sufficient evidence to satisfy issuance of an award has been presented.

(d) The arbitrator's award shall be rendered as expeditiously as possible and in no event later than thirty days after the close of the hearing. In the event the arbitrator finds that the Company has breached this Agreement, he or she shall order the Company to immediately take the necessary steps to remedy the breach. The award of the arbitrator shall be final and binding upon the parties. The award may be enforced in any appropriate court as soon as possible after it is rendered. If an action is brought to confirm the award, both the Company and the Executive agree that no appeal shall be taken by either party from any decision rendered in such action.

(e) The Company will be considered the prevailing party in a dispute if the arbitrator determines that the Company has not breached this Agreement. Otherwise, the Executive will be considered the prevailing party. In the event that the Company is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (excluding any attorneys'

fees incurred by the Company) including stenographic reporter, if employed, shall be paid by the Executive. In the event that Executive is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (including all attorneys' fees incurred by the Executive), including the fees of a stenographic reporter if employed, shall be paid by the Company.

13. GOVERNING LAW

The laws of California shall govern the validity and interpretation of this Agreement, with regard to conflicts of laws.

14. CAPTIONS

The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

15. AMENDMENT

This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

16. NOTICES

All notices and other communications regarding this Agreement shall be in writing and shall be hand delivered to the other party or sent by prepaid registered or certified mail, return receipt requested, addressed as follows:

If to the Executive: -----  
-----  
-----

If to the Company: Southern California Water Company  
630 East Foothill Boulevard  
San Dimas, CA 91773  
Attn: Secretary

or to such other address as either party shall have furnished to the other in writing. Notice and communications shall be effective when actually received by the addressee.

#### 17. SEVERABILITY

The lack of validity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

#### 18. WITHHOLDING TAXES

The Company may withhold required federal, state, local or foreign taxes from any amounts payable under this Agreement.

#### 19. NO WAIVER

The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have under this Agreement, including, without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right under this Agreement.

#### 20. AT-WILL EMPLOYMENT

The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company prior to the Change in Control Date is "at will" and, prior to the Change in Control Date, the Executive's employment may be terminated by either the Executive or the Company at any time, in which case the Executive shall have no

further rights under this Agreement. From and after the Change in Control Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

#### 21. COUNTERPARTS

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first written above in Los Angeles, California.

SOUTHERN CALIFORNIA WATER COMPANY

By /s/ Floyd E. Wicks  
-----  
Title President and C.E.O.

EXECUTIVE

/s/ Donald K. Saddoris  
-----

## AMENDED AND RESTATED CHANGE-IN-CONTROL AGREEMENT

This Amended and Restated Change-in-Control Agreement (the "Agreement") is dated as of October 25, 1999, is entered into by and between Joseph F. Young (the "Executive") and Southern California Water Company, a California corporation (the "Company"), and amends and restates in its entirety the Change-in-Control Agreement dated as of October 27, 1998 among the Executive and the Company.

## RECITALS

The Company considers it essential to the best interest of the Company and its shareholders that the Executive be encouraged to remain with the Company and continue to devote full attention to the Company's business notwithstanding the possibility, threat or occurrence of a Change in Control (as defined in Section 3). The Company believes that it is in the best interest of the Company and its shareholders to reinforce and encourage the continued attention and dedication of the Executive and to diminish inevitable distractions arising from the possibility of a Change in Control. Accordingly, to assure the Company that it will have the Executive's undivided attention and services notwithstanding the possibility, threat or occurrence of a Change in Control, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Board of Directors of the Company has, at the recommendation of its Compensation Committee, caused the Company to enter into this Agreement.

## TERMS AND CONDITIONS

The Executive and the Company hereby agree to the following terms and conditions:

## 1. TERM OF AGREEMENT

If a Change in Control (as defined in Section 3) occurs on or before the expiration date of this Agreement and while the Executive is still an employee of the Company, then this Agreement will continue in effect for two years from the date of such Change in Control and, if the Executive's employment with the Company is terminated within such two-year period, this Agreement shall thereafter continue in effect until all of the obligations of the Company under this Agreement shall have been fulfilled. If no Change in Control occurs on or before December 31, 2000, this Agreement shall expire; provided, however that this Agreement shall be automatically extended for an additional two years to December 31, 2002 if (i) a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or American States Water Company, a California corporation ("AWR"), on or before the expiration date, or (ii) the Company has not delivered to you or you shall have not delivered to the Company written notice at least 60 days prior to the expiration date that such expiration date shall not be so extended. This Agreement shall continue to be automatically extended for an additional two-year period and each succeeding two-year period if a plan or agreement for a Change in Control has been approved by the Board of Directors of the Company or AWR or the Company or the Executive fails to give the notices by the time and in the manner described in this Section 1.

## 2. CHANGE IN CONTROL DATE

The "Change in Control Date" shall mean the first date during the term of this Agreement on which a Change in Control (as defined in Section 3) occurs; provided, however, that if a Change in Control occurs and if the Executive's employment with the Company is terminated after approval by the Board of Directors of the Company or AWR of a plan or agreement for a Change in Control but prior to the date on which the Change in Control occurs, the "Change in Control Date" shall mean the date immediately preceding the date of such termination.

## 3. CHANGE IN CONTROL

A "Change in Control" shall mean any of the following events:

(a) the dissolution or liquidation of either the Company or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(b) any sale, lease, exchange or other transfer (in one or a series of transactions) of all or substantially all of the assets of either the Company or AWR, unless its business is continued by another entity in which holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing entity's voting securities immediately after the event;

(c) any reorganization or merger of the Company or AWR, unless the holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the continuing or surviving entity's voting securities immediately after the event;

(d) an acquisition by any person, entity or group acting in concert of more than 50% of the voting securities of the Company or AWR, unless the holders of AWR's voting securities immediately before the event own, either directly or indirectly, more than 50% of the acquirer's voting securities immediately after the acquisition; or

(e) a change of one-half or more of the members of the Board of Directors of the Company or AWR within a twelve-month period, unless the election or nomination for election by shareholders of new directors within such period constituting a majority of the applicable Board was approved by the vote of at least two-thirds of the directors then still in office who were in office at the beginning of the twelve-month period.

#### 4. EFFECTIVE PERIOD

For the purpose of this Agreement, the "Effective Period" is the period commencing on the Change in Control Date and ending on the date this Agreement terminates.

#### 5. TERMINATION OF EMPLOYMENT

(a) Death or Disability: The Executive's employment shall terminate automatically upon the Executive's death. If the Disability (as defined below) of the Executive occurs during the Effective Period, the Company may give the Executive written notice of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt,

the Executive shall not have returned to full-time performance of his or her duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from his or her duties with the Company on a full-time basis for 180 consecutive business days as a result of a physical or mental condition which prevents the Executive from performing the Executive's normal duties of employment and which is (i) determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative and/or (ii) entitles the Executive to the payment of long-term disability benefits from the Company's or AWR's long-term disability plan commencing no later than the Disability Effective Date.

(b) Cause: The Company may terminate the Executive's employment other than for Cause or Disability during the Effective Period as provided in Section 6(a). The Company may also terminate the Executive's employment during the Effective Period for Cause. For purposes of this Agreement, "Cause" shall be limited to the following:

(i) the Executive's failure to render services to the Company where such failure amounts to gross neglect or gross misconduct of the Executive's responsibility and duties,

(ii) the Executive's commission of an act of fraud or dishonesty against the Company or any affiliate of the Company, or

(iii) the Executive's conviction of a felony or other crime involving moral turpitude.

(c) Good Reason: The Executive's employment may be terminated by the Executive during the Effective Period for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the Change in Control Date, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to reappoint the Executive to a position held by the Executive on the Change in Control Date, except as a result of the termination of the Executive's employment by the Company for Cause or Disability, the death of the Executive, or the termination of the Executive's employment by the Executive other than for Good Reason;

(iii) reduction by the Company in the Executive's base salary as in effect on the date hereof or as the same may be increased from time-to-time; (iv) the taking of any action by the Company (including the elimination of benefit plans without providing substitutes therefore or the reduction of the Executive's benefits thereunder) that would substantially diminish the aggregate value of the Executive's incentive awards and other fringe benefits including the

executive benefits and perquisites from the levels in effect prior to the Change in Control Date;

(v) the Company's requiring the Executive to be based at any office or location which increases the distance from the Executive's home to the office location by more than 35 miles from the distance in effect as of the Change in Control Date;

(vi) any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

#### 6. OBLIGATIONS OF THE COMPANY UPON TERMINATION

(a) Good Reason, Other Than for Cause or Disability: If the Company shall terminate the Executive's employment other than for Cause or Disability during the Effective Period, or the Executive shall terminate employment for Good Reason during the Effective Period, the Company agrees, subject to Section 8, to make the payments and provide the benefits described below:

(i) The Company shall pay to the Executive in a cash lump sum within 10 days from the date of the Executive's termination of employment an amount equal to the product of (A) and (B), where (A) is 2.99 and (B) is the Executive's annual base salary at the highest of the rate in effect at any time during the three years preceding the date of termination.

(ii) The Company shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the sum of (A) Executive's base salary through the date of termination, plus (B) any

compensation previously deferred by the Executive (together with any accrued earnings or interest thereon), plus (C) any accrued vacation pay, in each case to the extent not theretofore paid (the amounts referred to in this paragraph (ii) are hereinafter referred to as the "Accrued Obligations").

(iii) The Company shall also pay to the Executive in a cash lump sum within 10 days from the date of termination an amount equal to the excess of (A) over (B), where (A) is equal to the single sum actuarial equivalent of what would be the Executive's accrued benefits under the terms of the Southern California Water Company Pension Plan (or any successor thereto), including any supplemental retirement plan providing additional pension benefits, (hereinafter together referred to as the "Pension Plan") at time of the Executive's termination of employment, without regard to whether such benefits are "vested" thereunder, if the Executive were credited with an additional two years of continuous service after the termination of Executive's employment with the Company at the Executive's highest annual rate of compensation covered by such Pension Plan within the three years preceding the date of the termination of the Executive's employment with the Company and (B) is equal to the single sum actuarial equivalent of the Executive's accrued benefits under the Pension Plan at the time of the Executive's termination of employment. The payment under this paragraph (iii) shall not extinguish any rights the Executive has to benefits under the Pension Plan. For purposes of this paragraph, "actuarial equivalent" shall be determined using the actuarial assumptions used under the Pension Plan for determining the

actuarial equivalence of different annuity forms of benefits. In no event shall the additional two years of continuous service referred to above cause the Executive to be deemed to be older than the Executive's actual age for any purpose under this Agreement.

(iv) For two years after the Executive's date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue to provide welfare benefits and fringe benefits and other perquisites to the Executive and/or the Executive's family at least equal to those which would have been provided to them if the Executive's employment had not been terminated (in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliates applicable generally to other peer executives and their families immediately preceding the date of the Executive's termination of employment); provided, however, that if the Executive becomes employed by another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for any retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until two years after the date of termination of employment and to have retired on the last day of such period. Following the period of

continued benefits referred to in this subsection, the Executive and the Executive's family shall be given the right provided in Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code"), to elect to continue benefits in all group medical plans. In the event that the Executive's participation in any of the plans, programs, practices or policies of the Company referred to in this subsection is barred by the terms of such plans, programs, practices or policies, the Company shall provide the Executive with benefits substantially similar to those which the Executive would be entitled as a participant in such plans, programs, practices or policies. At the end of the period of coverage, the Executive shall have the option to have assigned to the Executive, at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company and relating specifically to the Executive.

(v) The Company shall enable the Executive to purchase, at the end of the Effective Period, the automobile, if any, provided by the Company for the Executive's use at the time of the Executive's termination of employment at the wholesale value of such automobile at such time, as shown in the current addition of the National Auto Research Publication Blue Book. At the Executive's election, the Executive may retain any existing club memberships of the Executive purchased by the Company upon reimbursement to the Company of any membership costs paid by the Company.

(vi) To the extent not theretofore paid or provided, the Company shall timely pay or provide the Executive any other amounts or benefits required to be

paid or provided or which the Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company and its affiliates (such other amounts and benefits being hereinafter referred to as "Other Benefits") in accordance with the terms of such plan, program, policy, practice, contract or agreement.

(vii) The Executive shall be entitled to interest on any payments not paid on a timely basis as provided in this Section 6(a) at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

(b) Death: If the Executive's employment is terminated by reason of the Executive's death during the Effective Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a cash lump sum within 10 days of the date of the Executive's death.

(c) Disability: If the Executive's employment is terminated by reason of the Executive's Disability during the Effective Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a cash lump sum within 30 days of the Executive's termination of employment.

(d) Cause, Other than for Good Reason: If the Executive's employment shall be terminated for Cause during the Effective Period or, if the Executive voluntarily terminates

employment during the Effective Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and any benefits payable to Executive under a plan, policy, practice, etc., referred to in Section 7 below. Accrued Obligations shall be paid to the Executive in a cash lump sum within 60 days of the Executive's termination of employment.

#### 7. NON-EXCLUSIVITY OF RIGHTS

Subject to Section 8, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliates and for which the Executive may qualify, nor, subject to Sections 8 and 20, shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliates. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company or any of its affiliates at or subsequent to the date of termination of the Executive's employment shall be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

#### 8. LIMITATION ON BENEFITS

Notwithstanding anything in this Agreement to the contrary, if any payments or benefits to be made to or for the Executive's benefit, whether pursuant to this Agreement or otherwise, whether by the Company or another entity or person, would not be deductible by the Company due to limitations imposed by Section 162(m) of the Code, then such payments or benefits shall be deferred to the extent necessary until such time as such payments would be

deductible under Section 162(m) of the Code. Either the Company or the Executive may request a determination as to whether any payments would be subject to limitations on deductibility under Section 162(m) of the Code and, if so requested, such determination shall be made by independent legal counsel selected by the Company and approved by the Executive. Payment may be delayed pending any such determination, provided that the Executive shall be entitled to interest on any delayed payment at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code. The Executive shall also be entitled to interest on any payments deferred as a result of the limitations on deductibility under Section 162(m) of the Code at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

#### 9. PARACHUTE PAYMENTS

(a) Gross-Up Payment. In the event that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments under this Section 9(a)) (a "Payment") is determined to be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company shall pay to the Executive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such Payments.

(b) Accounting Firm. Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen LLP or such other certified public accounting firm as may be designated by Executive and which is satisfactory to the Company (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days after such determinations are requested by Executive or the Company. All fees and expenses of the Accounting Firm shall be born solely by the Company. The Company shall pay any Gross-Up Payment, as determined pursuant to this Section 9(b), to Executive within five days after the receipt by the Company of the Accounting Firm's determination. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and the Company shall pay such Underpayment promptly to or for the benefit of the Executive.

(c) Internal Revenue Service Claims. Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after Executive is informed in writing of such

claim and shall apprise the Company of the nature of such claim, and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(i) Give the Company any information reasonably requested by it relating to such claim,

(ii) Take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) Cooperate with the Company in good faith in order to contest such claim effectively, and

(iv) Permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection

with such contests and, at their sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the control by the Company of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) Refunds. If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 9(c), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to compliance by Company with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an

amount advanced by the Company pursuant to Section 9(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

#### 10. FULL SETTLEMENT

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 6(a)(iv), such amounts shall not be reduced whether or not Executive obtains other employment.

#### 11. SUCCESSORS

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or

assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, the "Company" shall mean the Company as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

## 12. ARBITRATION

(a) Because it is agreed that time will be of the essence in determining whether any payments are due to the Executive under this Agreement, the Executive may submit any claim for payment under this Agreement or dispute regarding the interpretation of this Agreement to arbitration. This right to select arbitration shall be solely that of the Executive, and the Executive may decide whether or not to arbitrate in his or her discretion. The "right to select arbitration" is not mandatory on the Executive, and the Executive may choose in lieu thereof to bring an action in an appropriate civil court. Once an arbitration is commenced, however, it may not be discontinued without the mutual consent of both parties to the arbitration. During the lifetime of the Executive only he or she can use the arbitration procedure set forth in this section.

(b) Any claim for arbitration may be submitted as follows: If the Executive disagrees with the Company regarding the interpretation of this Agreement and the claim is finally denied by the Company in whole or in part, such claim may be filed in writing with an arbitrator of the Executive's choice who is selected by the method described in the next three sentences. The first step of the selection shall consist of the Executive submitting a list of five potential arbitrators to the Company. Each of the five arbitrators must be either (1) a member of the National Academy of Arbitrators located in the State of California or (2) a retired California

Superior Court or Appellate Court judge. Within two weeks after receipt of the list, the Company shall select one of the five arbitrators as the arbitrator for the dispute in question. If the Company fails to select an arbitrator in a timely manner, the Executive shall then designate one of the five arbitrators as the arbitrator for the dispute in question.

(c) The arbitration hearing shall be held within thirty days (or as soon thereafter as possible) after the picking of the arbitrator. No continuance of the hearing shall be allowed without the mutual consent of the Executive and the Company. Absence from or nonparticipation at the hearing by either party shall not prevent the issuance of an award. Hearing procedures which will expedite the hearing may be ordered at the arbitrator's discretion, and the arbitrator may close the hearing at his or her discretion when sufficient evidence to satisfy issuance of an award has been presented.

(d) The arbitrator's award shall be rendered as expeditiously as possible and in no event later than thirty days after the close of the hearing. In the event the arbitrator finds that the Company has breached this Agreement, he or she shall order the Company to immediately take the necessary steps to remedy the breach. The award of the arbitrator shall be final and binding upon the parties. The award may be enforced in any appropriate court as soon as possible after it is rendered. If an action is brought to confirm the award, both the Company and the Executive agree that no appeal shall be taken by either party from any decision rendered in such action.

(e) The Company will be considered the prevailing party in a dispute if the arbitrator determines that the Company has not breached this Agreement. Otherwise, the Executive will be considered the prevailing party. In the event that the Company is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (excluding any attorneys'

fees incurred by the Company) including stenographic reporter, if employed, shall be paid by the Executive. In the event that Executive is the prevailing party, the fee of the arbitrator and all necessary expenses of the hearing (including all attorneys' fees incurred by the Executive), including the fees of a stenographic reporter if employed, shall be paid by the Company.

13. GOVERNING LAW

The laws of California shall govern the validity and interpretation of this Agreement, with regard to conflicts of laws.

14. CAPTIONS

The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

15. AMENDMENT

This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

16. NOTICES

All notices and other communications regarding this Agreement shall be in writing and shall be hand delivered to the other party or sent by prepaid registered or certified mail, return receipt requested, addressed as follows:

If to the Executive:  
-----  
-----  
-----

If to the Company: Southern California Water Company  
630 East Foothill Boulevard  
San Dimas, CA 91773  
Attn: Secretary

or to such other address as either party shall have furnished to the other in writing. Notice and communications shall be effective when actually received by the addressee.

#### 17. SEVERABILITY

The lack of validity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

#### 18. WITHHOLDING TAXES

The Company may withhold required federal, state, local or foreign taxes from any amounts payable under this Agreement.

#### 19. NO WAIVER

The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have under this Agreement, including, without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right under this Agreement.

#### 20. AT-WILL EMPLOYMENT

The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company prior to the Change in Control Date is "at will" and, prior to the Change in Control Date, the Executive's employment may be terminated by either the Executive or the Company at any time, in which case the Executive shall have no

further rights under this Agreement. From and after the Change in Control Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

#### 21. COUNTERPARTS

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first written above in Los Angeles, California.

SOUTHERN CALIFORNIA WATER COMPANY

By /s/ Floyd E. Wicks  
-----  
Title President and C.E.O.

EXECUTIVE

/s/ Joseph F. Young  
-----

SOUTHERN CALIFORNIA WATER COMPANY PENSION RESTORATION PLAN

SOUTHERN CALIFORNIA WATER COMPANY  
PENSION RESTORATION PLAN

## TABLE OF CONTENTS

	Page
	----
ARTICLE I.....	1
1.1 - Title.....	1
1.2 - Purpose.....	1
1.3 - Definitions.....	1
ARTICLE II.....	2
2.1 - Eligibility Requirements.....	3
ARTICLE III.....	3
3.1 - Payment.....	3
ARTICLE IV.....	3
4.1 - Retirement Benefit.....	3
4.2 - Benefit Limitation.....	4
4.3 - Payment of Retirement Benefits.....	4
4.4 - Small Benefit.....	5
4.5 - Forfeiture of Benefits.....	5
4.6 - Spouse Pre-Retirement Death Benefit.....	5
ARTICLE V.....	6
5.1 - Committee.....	6
5.2 - Agents.....	6
5.3 - Binding Effect of Decisions.....	7
5.4 - Indemnity.....	7
5.5 - Claim Procedure.....	7
ARTICLE VI.....	8
6.1 - Amendments and Termination.....	8
6.2 - Protection of Accrued Benefits.....	8
ARTICLE VII.....	9
7.1 - Unfunded Plan.....	9
7.2 - Unsecured General Creditor.....	9
7.3 - Trust Fund.....	10
7.4 - Nonassignability.....	10
7.5 - Limitation on Participants' Rights.....	10
7.6 - Participants Bound.....	11
7.7 - Receipt and Release.....	11
7.8 - Federal Law Governs.....	11
7.9 - Headings and Subheadings.....	12
7.10 - Successors and Assigns.....	12

SOUTHERN CALIFORNIA WATER COMPANY  
PENSION RESTORATION PLAN

THIS PLAN is adopted, effective the 1st day of January, 1997, by SOUTHERN CALIFORNIA WATER COMPANY, a California corporation ("Company"), and evidences the terms of a Pension Restoration Plan for certain executives.

W I T N E S S E T H

ARTICLE I  
TITLE, PURPOSE AND DEFINITIONS

1.1 - Title.

This plan shall be known as the "Southern California Water Company Pension Restoration Plan."

1.2 - Purpose.

The purpose of this Plan is to supplement retirement benefits payable to certain participants in the Southern California Water Company Pension Plan, as amended and in effect from time to time ("Pension Plan") by making up benefits which are reduced by virtue of Sections 401(a)(17) or 415 of the Internal Revenue Code of 1986. No payment shall be made under this Plan which duplicates a benefit payable under any other deferred compensation plan or employment agreement of the Company.

1.3 - Definitions.

Unless defined herein, any word, phrase or term used in this Plan with initial capitals shall have the meaning given therefor in the Pension Plan.

"Company" means Southern California Water Company or any successor corporation by merger, consolidation, or otherwise.

"Employer" means the Company and any subsidiary or any other member of its consolidated group (for federal tax purposes) designated by the Board of Directors to participate in the Plan.

"Eligible Employee" means each individual who meets each of the following requirements: (1) he or she is an officer of the Employer; (2) he or she is a participant in the Pension Plan; (3) his or her Pension Plan benefits are reduced by the application of Sections 401(a)(17) or 415 of the Code; and (4) he or she is designated as an Eligible Employee by the Board of Directors.

"Participant" means any Eligible Employee who is eligible for participation in this Plan as specified in Section 2.1.

"Plan" means the Southern California Water Company Pension Restoration Plan as set forth in this Agreement and all subsequent amendments hereto.

"Plan Year" means the calendar year.

ARTICLE II  
PARTICIPATION

## 2.1 - Eligibility Requirements.

An Employee who is an Eligible Employee shall become a Participant on the later of the date he or she becomes vested under the Pension Plan or becomes an Eligible Employee.

### ARTICLE III PAYMENT OF BENEFITS

## 3.1 - Payment.

There shall be no funding of any benefit which may become payable hereunder. The Company may, but is not obligated to, invest in any assets or in life insurance policies which it deems desirable to provide assets for payments under this Plan but all such assets or life insurance policies shall remain the general assets of the Company. In connection with any such investments and as a condition of further participation in this Plan, Participants shall execute any documentation reasonably requested by the Company.

### ARTICLE IV RETIREMENT BENEFITS

## 4.1 - Retirement Benefit.

Subject to Section 4.3, a Participant's retirement benefit under this Plan shall equal the excess of A over B where:

A equals the Participant's vested retirement benefit under the Pension Plan, commencing on the date benefits commence under the Pension Plan, and payable in form of benefit elected by the Participant (and spouse, if applicable) under the Pension Plan, calculated by ignoring Sections 401(a)(17) and 415 of the Code (and the Pension Plan provisions implementing those Code sections), and

B equals the vested retirement benefit actually payable under the Pension Plan, commencing on the date benefits commence under the Pension Plan, and payable in form of benefit elected by the Participant (and spouse, if applicable) under the Pension Plan.

#### 4.2 - Benefit Limitation.

Notwithstanding any other provisions of the Plan, in the event that any benefit provided under this agreement would, in the opinion of counsel for the Company, not be deductible in whole or in part in the calculation of the federal income tax of the Company by reason of Section 280G of the Internal Revenue Code of 1986 (the "Code"), the aggregate benefits provided hereunder shall be reduced so that no portion of any amount which is paid to the Participant or Beneficiary is not deductible for tax purposes by reason of Section 280G of the Code.

#### 4.3 - Payment of Retirement Benefits.

Upon a Participant's commencement of benefits under the Pension Plan, the Employer shall commence to pay to such retired Participant (or beneficiary, if applicable, after

the Participant's death) the monthly retirement benefit to which the Participant is entitled under this Plan, commencing on the date benefits commence under the Pension Plan, and payable in form of benefit elected by the Participant (and spouse, if applicable) under the Pension Plan. No benefits shall be payable under this Plan while the Participant is an Employee.

#### 4.4 - Small Benefit.

Notwithstanding any other provision or provisions of this Plan to the contrary, if any benefit hereunder is for an amount of less than fifty dollars per month, such benefit shall instead be paid in a lump sum which is the Actuarial Equivalent of such monthly benefit.

#### 4.5 - Forfeiture of Benefits.

Notwithstanding any provision of this Plan to the contrary, no benefits shall be payable under this Plan with respect to any Participant if the Participant confesses to, is convicted of, or pleads no contest to, any act of fraud, theft or dishonesty arising in the course of, or in connection with, his or her employment with the Employer.

#### 4.6 - Spouse Pre-Retirement Death Benefit.

If a Participant's spouse is entitled to a pre-retirement death benefit under Section 4.12 of the Pension Plan, the monthly benefit, if any, payable upon the death of a Participant to the Participant's spouse, commencing upon the date that monthly benefits to such spouse commence under Section 4.12 of the Pension Plan and payable for the period such benefit is payable under the Pension Plan, shall be equal to the excess, if any, of:

(a) The monthly death benefit determined in accordance with Section 4.12 of the Pension Plan, calculated by ignoring Sections 401(a)(17) and 415 of the Code (and the Pension Plan provisions implementing those Code sections),

over

(b) The amount of the monthly spouse death benefit payable to the Participant's spouse pursuant to Section 4.12 of the Pension Plan.

No benefits under this Section 4.7 shall be paid if the benefits payable pursuant to any other provisions of this Article IV have already commenced.

ARTICLE V  
COMMITTEE

5.1 - Committee.

This Plan shall be administered by the Committee. The Committee shall have the authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions, including interpretations and constructions of this Plan as may arise in connection with the Plan. The Committee shall also have all rights and duties set forth in Section 6.3 of the Pension Plan. The Committee shall have full discretion to construe and interpret the terms and provisions of this Plan. The Committee members may be Participants under this Plan.

5.2 - Agents.

The Committee may, from time to time, employ other agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with counsel who may be counsel to the Company.

#### 5.3 - Binding Effect of Decisions.

The decision or action of the Committee in respect of any questions arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

#### 5.4 - Indemnity.

To the extent permitted by applicable federal and state laws the Company shall indemnify and save harmless the Board of Directors, the Committee and each member of each thereof, and any employee appointed pursuant to Section 5.2, against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims, arising out of their discharge in good faith of responsibilities under or incident to the Plan, excepting only expenses and liabilities arising out of willful misconduct or gross negligence. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, as such indemnities are permitted under state law.

#### 5.5 - Claim Procedure.

The entire claim procedure set forth in Section 6.3(g) of the Pension Plan, as amended from time to time, is hereby incorporated by reference.

ARTICLE VI  
AMENDMENT AND TERMINATION

6.1 - Amendments and Termination.

The Company shall have the right to amend this Plan (and to amend or cancel any amendments) from time to time by resolution of the Board of Directors. Such amendment shall be stated in an instrument in writing, executed by the Company in the same manner as this Plan. The Company also reserves the right to terminate this Plan at any time by resolution of the Board of Directors.

6.2 - Protection of Accrued Benefits.

This Plan is strictly a voluntary undertaking on the part of the Company and shall not be deemed to constitute a contract between the Company and any Eligible Employee (or any other employee) or a consideration for, or an inducement or condition of employment for the performance of services by any Eligible Employee or employee. Although the Company reserves the right to amend or terminate this Plan at any time and, subject at all times to the provisions of Section 4.3, no such amendment or termination shall result in the forfeiture of benefits accrued pursuant to this Plan as of the date of termination. The benefits accrued at that time shall be the lesser of (1) the benefit that would be payable if the Participant terminated employment on the date of

termination, or (2) the benefit that would be payable at actual retirement under the Pension Plan (or death, if earlier) if this Plan were terminated.

ARTICLE VII  
MISCELLANEOUS

7.1 - Unfunded Plan.

All benefits due under this Plan to a Participant shall be paid by the Employer that employed that Participant. This Plan is intended to be an unfunded plan maintained primarily to provide deferred compensation benefits for a select group of "management or highly compensated employees" within the meaning of Section 201, 301 and 401 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and therefore to be exempt from the provisions of Parts 2, 3 and 4 of Title I of ERISA.

7.2 - Unsecured General Creditor.

In the event of an Employer's insolvency, Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interest or claims in any property or assets of Employer, nor shall they be beneficiaries of, or have any rights, claims or interest in any life insurance policies, annuity contracts or the proceeds therefrom owned or which may be acquired by Employer. In that event, any and all of Employer's assets and policies shall be, and remain, unrestricted by the provisions of this Plan. An Employer's obligation under the Plan shall be that of an unfunded and unsecured promise of Employer to pay money in the future.

### 7.3 - Trust Fund.

Each Employer shall be responsible for the payment of all benefits provided under the Plan to Participants employed by it. At its discretion, the Company may establish one or more trusts, with such trustees as the Board may approve, for the purpose of providing for the payment of such benefits. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the Company's creditors. To the extent any benefits provided under the Plan are actually paid from any such trust, the Employer shall have no further obligation with respect thereto, but to the extent not so paid, such benefits shall remain the obligation of, and shall be paid by, the Employer.

### 7.4 - Nonassignability.

None of the benefits, payments, proceeds or claims of any Participant or Beneficiary shall be subject to any claim of any creditor and, in particular, the same shall not be subject to attachment or garnishment or other legal process by any creditor, nor shall any Participant or Beneficiary have any right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits or payments or proceeds which he may expect to receive, contingently or otherwise, under this agreement.

### 7.5 - Limitation on Participants' Rights.

Participation in this Plan shall not give any Eligible Employee the right to be retained in the Employer's employ or any right or interest in the Plan other than as herein

provided. The Employer reserves the right to dismiss any Eligible Employee without any liability for any claim against the Employer, except to the extent provided herein.

#### 7.6 - Participants Bound.

Any action with respect to this Plan taken by the Committee or by the Company, or any action authorized by or taken at the direction of the Committee or the Company, shall be conclusive upon all Participants and Beneficiaries entitled to benefits under the Plan.

#### 7.7 - Receipt and Release.

Any payment to any Participant or Beneficiary in accordance with the provisions of this Plan shall, to the extent thereof, be in full satisfaction of all claims against the Employer and the Committee, and the Committee may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect. If any Participant or Beneficiary is determined by the Committee to be incompetent by reason of physical or mental disability (including minority) to give a valid receipt and release, the Committee may cause the payment or payments becoming due to such person to be made to another person for his or her benefit without responsibility on the part of the Committee or the Company to follow the application of such funds.

#### 7.8 - Federal Law Governs.

This Plan shall be construed, administered, and governed in all respects under federal law (except as otherwise provided by Section 5.4), and to the extent that federal law is inapplicable, under the laws of the State of California, provided, however, that if any provision is

susceptible to more than one interpretation, such interpretation shall be given thereto as consistent with this Plan being an unfunded plan described in Section 7.1. If any provision shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

7.9 - Headings and Subheadings.

Headings and subheadings in this agreement are inserted for convenience of records only and are not to be considered in the construction of the provisions hereof.

7.10 - Successors and Assigns.

This agreement shall inure to the benefit of, and be binding upon, the parties hereto and their successors and assigns.

IN WITNESS WHEREOF, the Company has caused these presents to be executed by its duly authorized officers and the corporate seal to be hereunto affixed this \_\_\_\_ day of \_\_\_\_\_, 1997.

SOUTHERN CALIFORNIA WATER COMPANY

By \_\_\_\_\_

By \_\_\_\_\_

AMERICAN STATES WATER COMPANY ANNUAL INCENTIVE PLAN

AMERICAN STATES WATER COMPANY  
ANNUAL INCENTIVE PLAN

AMERICAN STATES WATER COMPANY  
ANNUAL INCENTIVE PLAN  
TABLE OF CONTENTS

ARTICLE I	THE PLAN.....	I-1
1.1	Purpose.....	I-1
1.2	Definitions.....	I-1
1.3	Administration and Authorization; Power and Procedure.....	I-3
1.4	Payment/Grant of Awards.....	I-4
1.5	Non-Transferability.....	I-4
1.6	Beneficiary Designation.....	I-4
ARTICLE II	AWARDS.....	II-1
2.1	Award Determination.....	II-1
2.2	Vesting.....	II-2
2.3	Award Payment.....	II-2
2.4	Acceleration of Awards upon Change in Control.....	II-2
ARTICLE III	OTHER PROVISIONS.....	III-1
3.1	Rights of Eligible Employees, Participants and Beneficiaries.....	III-1
3.2	Compliance with Laws.....	III-1
3.3	Withholding; Payroll Taxes.....	III-1
3.4	Plan Amendment, Termination and Suspension.....	III-1
3.5	Effective Date of the Plan.....	III-1
3.6	Governing Law.....	III-1
3.7	Captions.....	III-2
3.8	Terms.....	III-2
3.9	Non-Exclusivity of Plan.....	III-2

AMERICAN STATES WATER COMPANY  
ANNUAL INCENTIVE PLAN

I. THE PLAN

- 1.1 Purpose: The purpose of this Plan is to promote the success of the Company by contributing to a team culture, focusing attention on increasing shareholder value, and creating an incentive program that will support future growth.
- 1.2 Definitions: For purposes of this Plan, the following terms shall have the meanings indicated below:
- (a) "Actual Return on Rate Base" shall mean the Company's actual annual rate of return on net assets included in the Company's rate filings.
  - (b) "Authorized Return on Rate Base" shall mean the composite annual rate of return on equity authorized for the Company during the Plan Year by the California Public Utilities Commission. The Authorized Rate of Return shall be calculated by the Company in accordance with the rules and/or examples approved by the Committee, and will be reviewed by the Company's external auditors.
  - (c) "Award" shall mean an award of a specified amount of cash or restricted stock to a Participant under the Plan.
  - (d) "Base Compensation" shall mean the salary and hourly wages, exclusive of overtime and bonuses, paid to an Eligible Employee during the calendar year proceeding the Determination Date.
  - (e) "Board" shall mean the Board of Directors of the Company.
  - (f) "Change in Control Event": Shall have the meaning given such term in the Company's 2000 Stock Incentive Plan.
  - (g) "Class A Managers" shall mean the managers of the Company, or a Subsidiary, designated as Class A Managers by the Chief Executive Officer.
  - (h) "Class B Managers" shall mean the managers of the Company, or a Subsidiary, designated as Class B Managers by the Chief Executive Officer.
  - (i) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.
  - (j) "Committee" shall mean the Compensation Committee of the Board of Directors.

- (k) "Company" shall mean American States Water Company.
- (l) "Consolidated Total Operating Revenues" shall be as set forth in the Company's audited consolidated financial statements.
- (m) "Determination Date" shall mean the last day of each Plan Year.
- (n) "Eligible Employee" shall mean an employee of the Company, or a Subsidiary, designated by the Committee at the beginning of a Plan Year as eligible to receive an Award under this Plan.
- (o) "Employer" shall mean the Company, or a Subsidiary of the Company which directly employs an Eligible Employee.
- (p) "Financial Performance" shall mean the Company's Actual Return on Rate Base as a percentage of its Authorized Return on Rate Base.
- (q) "Individual Adjustment" shall be the adjustment determined in accordance with section 2.1(a)(iv) of this document.
- (r) "Increase in Total Operating Revenues from Acquisition" shall mean the projected increase in Consolidated Total Operating Revenues from the Company's acquisition of another firm during the Plan Year.
- (s) "Maintenance Adjustment" shall be calculated in accordance with section 2.1(a)(ii) of this document.
- (t) "Participant" shall mean an Eligible Employee whose last performance appraisal was satisfactory.
- (u) "Personal Representative" shall mean the person or persons who, upon the Total Disability or incompetence of a Participant, shall have acquired on behalf of the Participant, by legal proceeding or otherwise, the power to exercise the rights or receive benefits under this Plan and who shall have become the legal representative of the Participant.
- (v) "Plan" shall mean this Annual Incentive Plan.
- (w) "Plan Year" shall mean the calendar year.
- (x) "Restricted Stock" shall mean shares of the common stock of the Company that are non-transferable and subject to forfeiture upon termination of employment within a specified period of time following the date of grant.

- (y) "Strategic Adjustment" shall be a factor based on Company performance. At the beginning of each plan year the Committee will establish performance criteria reflecting progress towards the Company's strategic goals. The Committee will, at that time, also establish the amount of the adjustment (no more than 50% in total) to be made to Awards otherwise payable under the Plan based on the achievement of these criteria.
- (z) "Subsidiary" shall mean any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.
- (aa) "Target Award" shall mean the amount equal to a Participant's Base Compensation multiplied by a percentage determined at the beginning of each Plan Year by the Committee.

1.3 Administration and Authorization; Power and Procedure:

- (a) Committee: This Plan shall be administered by, and all granting of Awards to Eligible Employees shall be authorized by, the Committee. Action with respect to the administration of this Plan shall be the sole and absolute discretion and responsibility of the Committee.
- (b) Plan Awards; Interpretation; Powers of Committee: Subject to the express provisions of this Plan, the Committee shall have the sole and absolute authority:
  - (i) to determine which employees are eligible to participate in the Plan for a Plan Year;
  - (ii) to determine the amount of the Award payable to each Participant for a Plan Year;
  - (iii) to construe and interpret this Plan and any agreements defining the rights and obligations of the Company and Participants under this Plan, further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan;
  - (iv) to make all other determinations and take such other action as contemplated by this Plan or as may be necessary or advisable for the administration of this Plan and the effectuation of its purposes.
- (c) Binding Determinations: The Committee shall have full discretion to construe and interpret the terms and provisions of the Plan, which interpretation or construction shall be final and binding on all parties, including but not limited to the Company, any Subsidiary and any Participants or Beneficiaries. Any action taken by, or inaction of, the

Company, or the Committee relating or pursuant to this Plan shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. No member of the Committee, or officer of the Company, shall be liable for any such action or inaction of the entity or body, of another person or, except in circumstances involving bad faith, of himself or herself.

- (d) Reliance on Experts: In making any determination or in taking or not taking any action under this Plan, the Committee may obtain and may rely upon the advice of experts, including professional advisors to the Company.
- (e) Delegation: The Committee may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Company or a Subsidiary.
- (f) Absence of Liability; Indemnity: No member of the Committee, director, officer or agent of the Company shall be liable for any action or determination taken, made or omitted in good faith. To the extent permitted under applicable state law, the Company shall indemnify and hold harmless the members of the Committee and any delegate against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to this Plan, except in the case of gross negligence or willful misconduct.

1.4 Payment/Grant of Awards: Subject to the express provisions of this Plan, the Committee shall determine the amount of each Award.

1.5 Non-Transferability: Neither a Participant nor any other person shall have the right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt of the amounts, if any, payable hereunder, or any part thereof, part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

1.6 Beneficiary Designation:

- (a) "Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, Personal Representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Committee to receive the benefits, if any, specified hereunder in the event of the Participant's death. No beneficiary designation shall become effective

until it is filed with the Committee, and no Beneficiary designation of someone other than the Participant's spouse shall be effective unless such designation is consented to by the Participant's spouse on a form provided by and in accordance with procedures established by the Committee. If there is no valid Beneficiary designation in effect, or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Committee determines is reasonably necessary to allow such personal representative to be appointed but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who can verify by affidavit or court order to the satisfaction of the Committee that they are legally entitled to receive the benefits specified hereunder. In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid (a) to that person's living parent(s) to act as custodian, (b) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (c) if no parent of that person is then living, to a custodian selected by the Committee to hold the funds for the minor under the Uniform Transfers of Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor.

- (b) Effect of Payment: The payment to the Beneficiary or deemed Beneficiary, in accordance with the provisions of this Plan, shall completely discharge all obligations under this Plan of the Committee, the Company and any Subsidiary.

## II. AWARDS

## 2.1 Award Determination:

## (a) Performance Evaluation:

- (i) Financial Performance: Performance shall first be evaluated based on the Company's Actual Return on Rate Base as a percentage of its Authorized Return on Rate Base. In 2000, the following schedule shall apply:

Actual/Authorized Return -----	Financial Performance Percentage -----
Greater than 100%	120%
98%	100%
96%	85%
94%	60%
92%	25%
Less than 92%	0%

Note: Percentages will be interpolated for performance between levels.

- (ii) Maintenance Adjustment: If the Company's maintenance costs are significantly less than estimated for rate base purposes (more than .5% of the Authorized Return on Rate Base), the Actual Return on Rate Base will be adjusted downwards by the amount of the shortfall.
- (iii) Strategic Adjustment: For Executives (Vice Presidents and above) and Class A Managers, the Company's Financial Performance shall be adjusted (up or down) based on factors including the achievement of strategic goals such as acquisitions of other firms. The maximum adjustment for strategic performance in one year shall be capped at 50%. In 2000, the following schedule shall apply:

Increase in Total Operating Revenues from Acquisition -----	Strategic Adjustment -----
Less than 10%	0%
10%	10%
13%	12%
16%	14%
19%	16%
22%	18%
25%	20%
28%	22%
31%	24%
Greater than 33%	25%

- (iv) Individual Adjustment: For Class B Managers, the Company's Financial Performance shall be adjusted based on team/individual performance. The adjustment can increase or decrease payout by 0% - 50%. The size of the adjustment shall be based on the accomplishment of goals that are established by the Employer at the beginning of each Plan Year.
  - (b) Determination of Individual Awards: The Award to be paid to any Participant will be equal to (i) the Financial Performance times (ii) one hundred percent (100%) plus the Strategic Adjustment or Individual Adjustment, whichever is applicable, times the Target Award.
  - (c) Participant's Award: A Participant's Award shall be pro-rated in the event he/she participates in the Plan for less than the full year, moves into a position covered under a different schedule of awards, and/or moves into or from a position not currently included under this Plan. The pro-rated amount will be calculated by multiplying the Award otherwise payable to the Participant for the entire year by a fraction, the numerator of which is the number months completed by the Participant during the Plan Year, and the denominator of which is 12.
- 2.2 Vesting: There is no vested right to receive an Award and no Award is earned until paid. A Participant who terminates employment for any reason before the payment of the Awards shall forfeit any unpaid Awards, except in the cases of death or disability.
- 2.3 Award Payment: Awards will be paid by the Employer following the completion of the audit of the financials, normally within 75 days of the end of the fiscal year. Payment shall be provided in cash and/or Restricted Stock. All payments less than 20% of Base Compensation shall be paid cash. Payments above 20% of Base Compensation may be paid, at the discretion of the Committee, in Restricted Stock issued in accordance with the provisions of the American States Water Company Long-Term Incentive Plan (the "Long-Term Incentive Plan"). The number of shares of Restricted Stock (if any) to be issued shall equal the difference between the amount of the Award and the amount paid in cash divided by the Fair Market Value (as defined in the Long-Term Incentive Plan) of a share of the Company common stock determined as of the Determination Date. Unless the Committee otherwise provides, the rights of a Participant with respect to Restricted Stock issued hereunder shall vest, and the applicable restrictions shall lapse, in a series of three successive equal annual installments commencing on the first anniversary of the Determination Date.
- 2.4 Acceleration of Awards upon Change in Control: Notwithstanding the foregoing, unless prior to a Change in Control Event the Committee determines that, upon its

occurrence, benefits under any or all Awards shall not be accelerated or determines that only certain or limited benefits under any or all Awards shall be accelerated and the extent to which they shall be accelerated, then upon the occurrence of a Change in Control Event, the Awards shall be vested and the Participant shall be entitled to the payment thereof within 75 days after the Change in Control Event. The Award to be paid to any Participant will be equal to (i) the Financial Performance for the 12 month period preceding the Change in Control Event times (ii) one hundred percent (100%) plus the Strategic Adjustment or Individual Adjustment, whichever is applicable, for the 12 month period preceding the Change in Control Event, times the Target Award times (iii) a fraction, the numerator of which is the number of months completed by the Participant during the Plan Year, and the denominator of which is 12. Any discretion with respect to these events shall be limited to the extent required by applicable accounting requirements in the case of a transaction intended to be accounted for as a pooling of interests transaction. The Committee may override the limitations on acceleration and may accord any Participant the right to refuse any acceleration in such circumstances as the Committee may approve.

## III. OTHER PROVISIONS

## 3.1 Rights of Eligible Employees, Participants and Beneficiaries:

- (a) Employment Status: Status as an Eligible Employee shall not be construed as a commitment that any Award will be made under this Plan to an Eligible Employee or to Eligible Employees generally.
- (b) No Employment Contract: Nothing contained in this Plan (or in any other documents related to this Plan or to any Award) shall confer upon any Eligible Employee or Participant any right to continue in the employ or other service of the Company, or any Subsidiary, or constitute any contract or agreement of employment or other service, nor shall interfere in any way with the right of the Company, or any Subsidiary, to change such person's compensation or other benefits or to terminate the employment of such person, with or without cause, but nothing contained in this Plan or any document related hereto shall adversely affect any independent contractual right of such person without his or her consent thereto.

3.2 Compliance with Laws: This Plan, the granting and vesting of Awards under this Plan and the payment of money under this Plan or under Awards granted hereunder are subject to compliance with all, applicable federal and state laws, rules and regulations and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith.

3.3 Withholding; Payroll Taxes: The Employer shall withhold from payments made hereunder any taxes required to be withheld from such payments under federal, state or local law.

## 3.4 Plan Amendment, Termination and Suspension:

- (a) Board Authorization: The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. Any Restricted Stock outstanding at that time will be governed by the terms of the American States Water Company Long-Term Incentive Plan.

3.5 Effective Date of the Plan: This Plan shall be effective as of January 1, 1999.

## 3.6 Governing Law: Severability

- (a) Choice of Law: This Plan shall be governed by, and construed in accordance with the laws of the State of California applicable to contracts made and performed within such State, except as such laws may be preempted by the

laws of the United States of America, which laws shall then govern its effect and its construction to the extent they preempt California law.

(b) Severability: If any provision shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

3.7 Captions: Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

3.8 Terms: Whenever any words are used herein in the masculine, they shall be construed as though they were used in the feminine in all cases where they would so apply; and wherever any words are used herein in the singular or plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

3.9 Non-Exclusivity of Plan: Nothing in this Plan shall limit or be deemed to limit the authority of the Board or the Committee to grant awards or authorize any other compensation.

EXECUTED this \_\_\_\_\_ day of \_\_\_\_\_, 1999.

AMERICAN STATES WATER COMPANY

By: \_\_\_\_\_

Title: \_\_\_\_\_



Front Cover

American States Water Company  
1999 Annual Report

Reflecting the Needs of A New Age

[8 photos]

## Inside Front Cover

## CORPORATE PROFILE

American States Water Company (NYSE:AWR) is a holding company for Southern California Water Company (SCW) and American States Utility Services, Inc. (ASUS). AWR offers long-term, income-oriented investors an attractive total return potential and has paid dividends on its common shares every year since 1931.

AWR's philosophy is to continue to implement long-term strategies through its subsidiaries, to increase shareholder value by earning the authorized rate of return for its utility operations, and to increase overall earnings through selective non-regulated activities.

SCW is a public utility company engaged principally in the delivery of water service. SCW operates 39 separate water systems within 75 communities in 10 counties in California and provides water service to over 1 million people, or one out of every 33 Californians. In addition, SCW provides electric service to approximately 21,000 customers. SCW focuses on customers by providing water and electric services at affordable rates approved by the California Public Utilities Commission (CPUC). SCW complies with state environmental regulations and the federal Safe Drinking Water Act. Over one-half of the water the company sells is provided from its own wells.

ASUS engages in non-regulated business activities through long-term leases or operations and maintenance contracts with municipally owned water and wastewater systems. ASUS meets the needs and challenges facing municipalities throughout the country, by offering cost effective alternatives to higher water rates and diminishing water supplies.

[3 photos]

## TABLE OF CONTENTS

	Page
	----
Corporate Profile.....	IFC
Selected Financial Data.....	1
Letter to Shareholders.....	2
Strategy and Operating Review.....	4
Management's Discussion and Analysis.....	13
Financial Statements.....	19
Report of Management.....	32
Report of Independent Public Accountants.....	32
Shareholder Information.....	33
Statistical Review 1999-1990.....	34
Customer Service Areas.....	36
Corporate Information.....	IBC

## SELECTED FINANCIAL DATA

	1999	1998	Variance	% Change
	-----	-----	-----	-----
	(in thousands, except per share amounts)			
<b>INCOME STATEMENT INFORMATION</b>				
Total Operating Revenues	\$173,421	\$148,060	\$ 25,361	17.13%
Total Operating Expenses	144,907	122,999	\$ 21,908	17.81%
Operating Income	28,514	25,061	3,453	13.78%
Other Income	532	769	(237)	(30.82%)
Interest Charges	12,945	11,207	1,738	15.51%
Net Income	16,101	14,623	1,478	10.11%
Preferred Dividends	88	90	(2)	(2.22%)
Earnings Available for Common Shareholders	16,013	14,533	1,480	10.18%
Basic Earnings per Common Share	\$ 1.79	\$ 1.62	\$ 0.17	10.49%
Dividends Declared per Common Share	\$ 1.28	\$ 1.26	\$ 0.02	1.59%
<b>BALANCE SHEET INFORMATION</b>				
Total Assets	\$533,181	\$484,671	\$ 48,510	10.01%
Net Utility Plant	449,595	414,753	34,842	8.40%
Common Shareholders' Equity	158,846	154,299	4,547	2.95%
Long-Term Debt (Net)	167,363	120,809	46,554	38.54%
Preferred Shares	1,600	1,600	--	--
Preferred Shares - Subject to Mandatory Redemption	360	400	(40)	(10.00%)
Total Capitalization	\$328,169	\$277,108	\$ 51,061	18.43%
Book Value per Common Share	\$ 17.73	\$ 17.23	\$ 0.50	2.90%
Average Shares Outstanding	8,958	8,958	--	--
<b>OTHER INFORMATION</b>				
Ratio of Earnings to Fixed Charges	3.27%	3.21%	0.06%	1.87%
Ratio of Earnings to Total Fixed Charges	3.23%	3.17%	0.06%	1.89%
Return on Average Common Equity	10.2%	9.6%	0.60%	6.25%
Cash Flow from Operations	\$ 34,913	\$ 31,404	\$ 3,509	11.17%
Earnings Before Interest and Taxes	42,391	35,960	6,431	17.88%
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ 56,041	\$ 48,498	\$ 7,543	15.55%

[3 graphs]

## LETTER TO SHAREHOLDERS

DEAR FELLOW SHAREHOLDERS:

As American States Water Company marks the end of the 20th century, and plans for the new century, we are encouraged by the many opportunities for customers and shareholders. The water industry is changing. There is increased emphasis on quality of service and affordability, and your company is positioned to take economic advantage of these growth opportunities.

## FINANCIAL RESULTS

We are pleased to report that for the year ended December 31, 1999 total earnings available for common shareholders were \$16.0 million, or \$1.79 per share, as compared to total recorded earnings last year of \$14.5 million, or \$1.62 per share. The 10.5% increase in earnings in 1999 was driven by a return to normal weather patterns and rate increases covering approximately 65% of the company's water customer base. The 1999 rate increases reflected recovery of costs associated with additional investments, designed to provide high quality service levels for customers. The company anticipates continued increases in revenues in future years from additional rate increases to recover capital costs and, to a lesser extent, increased operating expenses.

## STRATEGIES FOR THE FUTURE

During 1999, the price per Common Share reached an all-time high of \$39.75. This price reflects both the improved financial performance of the company and current trends in the water utility industry, where consolidation continued at an increasing pace. Although the company's stock price, like most others in the industry, reflects some speculation about the future, your company remains solidly established as a leader within the industry with a sound and responsible business strategy. Customer base expansion, acquisitions, "beyond the meter" services, and continued capital investment for regulated and non-regulated operations drive financial growth. Your company will (i) continue to focus on core regulated operations to earn authorized returns on equity for shareholders, (ii) make acquisitions of regulated assets that complement existing operations

[Photos of Floyd E. Wicks, President and Chief Executive Officer, and Lloyd E. Ross, Chairman of the Board]

and promote geographic and regulatory diversity, and (iii) make investments in non-regulated enterprises such as privatized municipal concessions and contract operation and maintenance services. In order to make these long term, value-enhancing investments, these strategies may be slightly dilutive to current earnings. Management remains committed to making operational improvements to minimize this short term impact.

#### WATER QUALITY-RELATED LAWSUITS

In September 1999, the Court of Appeal ordered dismissal of seven of the 11 lawsuits filed against the company. In October 1999, one group of plaintiffs appealed that decision to the California Supreme Court. On December 15, 1999, the California Supreme Court announced that it will review the appeal. Management is confident that there is no factual basis for these lawsuits against the company. However, it is impossible to predict the final decision of the courts in these matters.

#### YEAR 2000

Like most of the world, the changing of the century was a quiet and successful transition for customers and employees of the company. The capital investment and the hours of effort by employees have, however, better positioned the company in the event of future emergency events.

#### ABILITY

The word alone is strong, and as a suffix, it creates words defining strong capabilities. Sensibility, durability, affordability and accountability govern your company's ability to provide long-term, income oriented investors with an attractive total return potential and to meet the service needs of its growing customer base into the next century. We invite you to read further about the abilities of your company and thank you for your continued support.

Floyd E. Wicks  
President and Chief Executive Officer

Lloyd E. Ross  
Chairman of the Board

[signatures Floyd E. Wicks, President and Chief Executive Officer and Lloyd E. Ross, Chairman of the Board]

## STRATEGY AND OPERATING REVIEW

## SENSIBILITY

AWR's management team follows a disciplined strategy to protect and increase the value of the company, maintaining high standards on future growth in earnings. AWR is focused on core operations and value-driven acquisitions with the potential to increase shareholder returns and create a strategic match that adds to the value of services provided to current and future customers.

To promote growth, resources are directed to new markets through acquisitions such as those small "tuck in" acquisitions completed last year and privatization of municipally-owned water, wastewater and electric assets. Although, the latter strategy is developing slowly, AWR has realigned its workforce to focus on these types of opportunities. In addition, the company continues to pursue non-regulated markets that will increase its asset base and water and electric customer base, expand geographic boundaries, and diversify operational factors such as those resulting from varying weather patterns and regulatory oversight.

As part of the continued strategy to present AWR as a premier provider of service contracts and acquisition options, American States Utility Services, Inc. (ASUS) will be further developed as an operations and management company. The company has expanded current service contracts and developed opportunities to provide utility services such as billing, 24-hour customer service call handling, meter reading, and other field service options. ASUS is developing concession, operation and maintenance business with municipalities throughout the western United States, and within the next five years, plans to enter into longer term water transfer contracts, which will offer a potential solution to supply challenges.

[1 graphic]

[2 graphs, 3 photos]

**DURABILITY**

The last year of the 20th century brought significant change in the water industry as the pace of consolidations of public and private utilities throughout California, the United States and the world accelerated. In addition, deregulation of the electric industry in California continued. These changing trends in the delivery of water and electricity, and, indeed the future of the utility industry, will be driven by regulatory and infrastructure demands. These demands force companies to strive for continuous improvement in operations and efficiencies in service. American States Water Company (AWR) continues to embrace and endure change, and to be a key player in the utility industry. The company remains solidly positioned in the top ranks of the United States water utility industry.

Financial strength, a committed management team, top-rated service and operational standards, and reliable supplies of quality water position AWR as a prime provider of services for water, wastewater and electric utilities faced with current and future business challenges. Beginning in 1929 and continuing through the changes of the last 70 years, AWR has successfully operated a variety of water and electric systems meeting population, supply and infrastructure and regulatory challenges.

The company's strategies to focus on core operations and supplement earnings through non-regulated activities in order to increase long-term value, have allowed AWR to weather the current wave of consolidations. Although current share prices have reflected the effects of consolidations, AWR continues to grow earnings from base operations at an average rate of approximately 5% annually for the past five years. Non-regulated operations will increase this growth rate.

AWR has the professionalism and durability that other utility operators look for when they can no longer efficiently meet the needs of their customers. The future changes in the utility industry present extensive opportunities due to affordable options offered by AWR.

[1 graphic]

[2 graphs, 1 photo]

[4 photos]

AWR's cost to serve the average residential customer for a day is approximately \$1.50, a monthly cost less than the average tank of gas for a large sport utility vehicle. This efficient cost-of-service figure is due to cost control measures currently in place, and additional improvements are planned for future years. The company's economies of scale often not available to smaller and municipally-owned water, wastewater and electric utilities also offers affordable options to these smaller utilities struggling to maintain regulatory compliance and preserve a high level of service to customers. That difficult equation to solve for smaller and municipally-owned utilities is a challenging situation at present, and one that will become increasingly complex in the future. AWR's status as a leader in the industry positions the company to continue to achieve higher earnings from a larger customer base while minimizing the impact on those customers.

Contributing to economies of scale and operational efficiencies, is the company's rate structure. The company's largest operating region, serving portions the metropolitan Los Angeles area, functions under a single rate enabling the company to offer the same high quality service at a uniform price. By reducing the number of, and costs associated with, general rate case filings, the savings are passed to the customer base.

The company filed an application with the California Public Utilities Commission (CPUC) to combine tariff schedules into regional rates for the company's second largest operating region serving portions of Orange, Imperial, Riverside and Los Angeles counties. The draft decision supports the company's application. A final decision from the CPUC is anticipated in the second quarter of 2000.

In the recent general rate case submitted to the CPUC, the company is requesting regional rates for the third operating region serving customers in Northern and Central California.

AFFORDABILITY

[1 graph, 1 graphic]

[4 photos]

In 1999, the company continued to increase total shareholder return. In fact, \$10,000 invested in December 1994, assuming reinvestment of all dividends, would be worth \$26,917(1) at the end of 1999.

However, management will not rest on past accomplishments. As discussed earlier, consolidation in the water industry has driven up share prices considerably. Future shareholder value depends upon continued growth in earnings and dividends. Maintaining financial growth and value to shareholders is, at a minimum, achieved by earning the CPUC-authorized rate of return on equity in recently filed rate cases and generation of additional revenues through non-regulated opportunities. This balance was met in 1999, and the company's disciplined strategy is structured to maintain this balance in future years.

Drivers of AWR's future financial growth include customer base expansion, investment in capital improvements and replacements, and the pursuit of acquisitions and non-regulated activities. The company has extensive experience and proven success in all of these areas and will aggressively pursue value-driven opportunities.

Strong heritage and endurance, combined with the disciplined strategy to offer investors value and to meet the service needs of a growing customer base, demonstrates that AWR is the company reflecting the needs of a new age.

(1) Past performance is no guarantee of future results. Share values and returns fluctuate and gain or loss may occur when shares are sold.

ACCOUNTABILITY

[2 graphs, one graphic]



## MANAGEMENT'S DISCUSSION AND ANALYSIS

American States Water Company (AWR) is the parent company of Southern California Water Company (SCW) and American States Utility Services, Inc. (ASUS). SCW is a public utility engaged principally in the purchase, distribution and sale of water as well as in the distribution of electricity in several mountain communities. SCW is regulated by the California Public Utilities Commission (CPUC) as to its water and electric business including properties, rates, services, facilities and other matters. ASUS performs water and energy related services and operations. AWR and ASUS are not regulated by the CPUC. Unless specifically noted, the following discussion and analysis provides information on the company's consolidated operations and assets.

## FORWARD-LOOKING INFORMATION

Certain matters discussed in this report (including the documents incorporated herein by reference) are forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as the company "believes," "anticipates," "expects" or words of similar import. Similarly, statements that describe the company's future plans, objectives, estimates or goals are also forward-looking statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rates, water quality and other regulatory matters, adequacy of water supplies, 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; future climatic conditions; legislative, regulatory and other circumstances affecting anticipated revenues and costs.

## RESULTS OF OPERATIONS

## YEARS ENDED DECEMBER 31, 1999 AND 1998

Basic earnings per Common Share in 1999 increased by 10.5% to \$1.79 per share as compared to \$1.62 per share for the comparable period last year. The increase in the recorded results primarily reflects higher revenues at the SCW unit during 1999 as is more fully discussed below.

Water operating revenues increased by 18.5% in 1999 to \$159.7 million from the \$134.8 million reported in 1998. Water sales volumes in 1999 were 9.0% higher than last year due primarily to the much drier and warmer weather conditions throughout Southern California in 1999. Additional increases in revenues were due to the general rate increases in six of the company's CSAs effective January 1, 1999, which were applicable to 65% of SCW's water customers.

Electric operating revenues of \$13.3 million were 1.0% higher in 1999 as compared to last year due to a 2.7% increase in kilowatt-hour sales, primarily by industrial power users. The sales increase was partially offset by the lower billing rates of industrial customers relative to residential customers.

Other revenues increased from \$65,000 to \$390,000 in 1999 due to increased management fees resulting from new ASUS service contracts established in the year and increased activities with existing contracts.

Purchased water costs in 1999 increased to \$36.1 million as compared to \$30.8 million in 1998 due to a 12.1% increase in volumes purchased. The increase also reflects reduced reimbursements in 1999 from potentially responsible parties related to groundwater contamination in SCW's Culver City CSA of approximately \$570,000, compared with reimbursements of \$1.7 million in 1998.

Costs of power purchased for pumping increased by 5.5% to \$7.4 million in 1999 chiefly as a result of an increase in pumped groundwater in SCW's water supply mix due to increased sales volumes.

Costs of power purchased for resale in 1999 increased by 42.0% to \$7.1 million from the \$5.0 million recorded in 1998 due primarily to additional energy demand charges from the energy supplier serving SCW's Bear Valley

Electric Service unit in 1999. As discussed below, most of this increase has been included in the supply cost recovery account and will have to be recovered in future rate increases.

Groundwater production assessments decreased by 5.3% to \$7.2 million in 1999 from \$7.6 million in 1998 due to reduced quantity rates in SCW's Metropolitan and San Dimas customer service areas.

A positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. Conversely, a negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. In 1999, recovery of previously under-collected supply costs was lower than 1998 due to the previously discussed increase in energy demand charges, the effect of which 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 balancing account mechanism insulates earnings from changes in the unit cost of supply costs which are outside of the immediate control of the company. However, the balancing account is not designed to insulate earnings against changes in the actual supply mix as compared to that mix authorized for recovery in rates. In 1999, SCW's overall supply mix improved favorably over that mix authorized in rates resulting in additional income. There is no assurance that the favorable mix can be sustained in future periods since actual results are affected by availability and quality of water, both purchased and produced from SCW's wells. See the section titled "Water Supply."

Other operating expenses increased by 7.8% from the \$14.5 million recorded in 1998 due to increased costs for water treatment, and a higher uncollectible provisions as a result of increased revenues.

Administrative and general expenses increased by 30.0% to \$28.6 million in 1999 from the \$22.0 million recorded in 1998. The increase is due to costs associated with various acquisition projects, increased employee benefit costs, and additional amounts reserved for certain legal proceedings.

In 1999, maintenance expense increased to the \$9.8 million level compared to the recorded \$7.3 million in 1998 due principally to increased maintenance on the company's water supply sources, and costs incurred on main replacements. The wet weather conditions during the first part of 1998 also hampered planned maintenance activities, thereby reducing maintenance expense last year.

Depreciation expense in 1999 increased by 8.9% to \$13.7 million reflecting the effects of recording approximately \$38.2 million in net plant additions during 1998, depreciation on which began in 1999.

Taxes on income increased by approximately 31.7% to \$13.3 million in 1999 as compared to the \$10.1 million last year due to a 24.5% increase in pre-tax income and a higher effective tax rate in 1999 resulting from the turn-around of depreciation-related temporary differences, the benefits of which were previously flowed-through for ratemaking purposes.

Property and other taxes increased by 7.2% in 1999 to \$6.6 million due primarily to increased franchise fees resulting from higher revenues, and increased payroll taxes from higher wages and additional personnel.

Other income decreased by 30.8% in 1999 due primarily to the flow-through of tax benefits related to refinancing of long-term debt in December 1998 for which there were no similar benefits in 1999.

Interest expense increased by 15.5% to \$12.9 million primarily due to the issuance of \$40 million in long-term debt in January 1999, partially offset by the retirement of \$10 million of 10.10% Notes in December 1998.

#### YEARS ENDED DECEMBER 31, 1998 AND 1997

Basic earnings per Common Share in 1998 increased by 3.8% to \$1.62 per share as compared to \$1.56 per share in 1997. Although wet weather significantly impacted revenues in 1998, lower supply costs and modest increases in other operating expenses partially offset the decline in revenues.

Water operating revenues decreased by 4.3% in 1998 to \$134.9 million from the \$141.0 million reported in 1997. Water sales volumes in 1998 were 9.9% lower than last year due to extremely wet weather during the first half of the year. The decrease in sales was partially offset by rate increases effective during 1998.

Electric operating revenues of \$13.2 million were 3.4% higher in 1998 as compared to 1997 due to the impact of a general rate increase effective January 1998, as well as a 2.0% increase in kilowatt-hour sales.

Purchased water costs decreased in 1998 to \$30.8 million as compared to \$38.3 million in 1997 due to a 20.8% decrease in volumes purchased and refunds received from the company's wholesale water supplier during 1998 of approximately \$1.4 million. Refunds of \$2.0 million were received in 1997.

Costs of power purchased for pumping decreased by 7.2% to \$7.0 million in 1998 chiefly as a result of reduced energy costs from the company's suppliers.

Costs of power purchased for resale in 1998 decreased by 3.4% to \$5.0 million from the \$5.2 million recorded in 1997

due to reduced costs from the company's energy providers offset by the effects of increased kilowatt-hour sales volumes recorded during the year.

Groundwater production assessments increased by 10.5% to \$7.6 million in 1998 from \$6.8 million in 1997 due to the increased amounts of pumped water in the company's supply mix as well as additional assessments associated with increased pumping in the company's Metropolitan and Orange County CSAs.

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. In 1998, recovery of previously under-collected supply costs was lower than 1997 due to the expiration, in January 1998, of a surcharge designed to recover those costs. The new rates, effective January 1999, increased collection of these under-collected costs. The balancing account mechanism insulates earnings from changes in the unit cost of supply costs which are outside of the immediate control of the company. However, the balancing account is not designed to insulate earnings against changes in supply mix, as occurred during the first eight months of 1997.

Other operating expenses increased by 10.6% from the \$13.1 million recorded in 1997 due to employee time charged to this category. Reversals in 1997 of costs associated with recovery of water quality expenditures through the CPUC's memorandum account mechanism also contributed to the increase. There were no such reversals of equal magnitude in 1998.

Administrative and general expenses decreased slightly by 0.7% to \$22.0 million in 1998 from the \$22.1 million recorded in 1997. The decrease is due to stability in costs associated with health insurance, post-retirement medical benefits, pension and 401(k) plan costs and to a reduction of time charged by employees to this category.

In 1998, maintenance expense remained at approximately the \$7.3 million level recorded in 1997 due principally to the wet weather conditions during the first part of 1998 that hampered planned maintenance activity.

Depreciation expense in 1998 increased by 14.5% to \$12.5 million reflecting the effects of recording approximately \$38 million in net plant additions during 1997, depreciation on which began in 1998. In addition, amortization of start-up and organizational costs associated with the formation of AWR is reflected in 1998 and there were no similar amortization costs in 1997.

Taxes on income increased by approximately 3.1% to \$10.1 million in 1998 as compared to the \$9.8 million in 1997 due to a 5.7% increase in operating income partially offset by a lower effective tax rate.

Property and other taxes decreased by 2.5% in 1998 to \$6.1 million due primarily to reduced franchise tax payments directly attributable to reduced revenues.

Other income increased by 1.5% in 1998 due principally to the flow-through of tax benefits related to refinancing of long-term debt which was partially offset by an increase in reserves against costs associated with the company's non-regulated joint venture.

Interest expense increased by 10.3% to \$11.2 million primarily due to increased short-term bank borrowing and the issuance of \$15 million in long-term debt in March 1998.

#### LIQUIDITY AND CAPITAL RESOURCES

AWR funds its operating expenses, dividends on its outstanding Common and Preferred Shares, and makes its mandatory sinking fund payments, principally through dividends from SCW. AWR has filed a Registration Statement with the Securities and Exchange Commission (SEC) for issuance, from time to time, of up to \$60 million in Common Shares, Preferred Shares and/or debt securities. The proceeds will be used primarily for investment in its subsidiaries. No securities have been issued under this Registration Statement as of December 31, 1999.

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 December 31, 1999, of which a total of \$21 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. In January 1999, SCW issued \$40 million of long-term debt pursuant to this Registration Statement, leaving \$20 million for issuance at a later date. The funds were used primarily to repay short-term bank borrowings, after which construction expenditures were funded.

The company has no derivative financial instruments, financial instruments with significant off-balance sheet risks or financial instruments with concentrations of credit risk.

#### CONSTRUCTION PROGRAM

SCW's construction program is designed to ensure its customers' high quality service. A program for water pipeline replacement is on-going throughout the 22 CSAs, based on priority of leaks detected, fire protection enhancements and reflection of the underlying replacement schedule. In addition, general upgrades in SCW's water supply facilities are anticipated to be on-going. SCW's board of directors has approved anticipated net capital expenditures of \$55.4 million in 2000. Neither AWR nor ASUS have material capital requirements.

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

New water rates for six of SCW's customer service areas and recovery of costs associated with SCW's general office functions were implemented in January 1999. Step increases in rates for Arden-Cordova, Bay Point and Los Osos CSAs were also effective in January 1999.

Applications to increase water rates were filed for four water ratemaking districts in SCW's Region III in March 1999. A draft decision has been issued by the Administrative Law Judge assigned to this matter that supports the settlement on all issues reached between SCW and the CPUC Staff. SCW has also filed an application with the CPUC to combine tariff schedules into regional rates for the CSAs that make up SCW's Region III. The Administrative Law Judge assigned to this matter has issued a draft decision that supports SCW's application. A final decision from the CPUC on both issues is anticipated in the second quarter of 2000.

The GRC step increase for the Metropolitan CSA and the General Office Allocation step increases for Simi Valley, Arden-Cordova, Santa Maria and Bay Point, were effective beginning January 2000. Attrition increases for Arden-Cordova and Bay Point CSAs were effective beginning January 2000.

In March 1998, the CPUC issued an Order Instituting Investigation (OII) to regulated water utilities in 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 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 provide water meeting the established water quality standards at prices which are both affordable and allow the utility to earn a

reasonable return on its investment. SCW has provided its response to a series of questions dealing with the adequacy of current drinking water standards, compliance by water utilities with such standards, appropriate remedies for failure to comply with drinking water standards and whether increased enforcement and additional drinking water standards are necessary. The Administrative

Law Judge assigned to the OII has issued a draft decision finding that water utilities, including SCW, have complied with DOHS regulations and requirements. SCW is unable to predict whether the draft decision will be approved in part or in its entirety. SCW anticipates a final decision by the CPUC on this matter in 2000.

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.

#### ENVIRONMENTAL MATTERS

The 1996 amendments to the Safe Drinking Water Act (SDWA) revised the 1986 amendments to the SDWA with a new process for selecting and regulating contaminants. The Environmental Protection Agency (EPA) can only regulate contaminants that may have adverse health effects, which are known or are likely to occur at levels of public health concern, and, if regulated, the regulation would 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 the best available, peer-reviewed science and data from best available methods. For proposed regulations that involve the setting of maximum contaminant levels (MCLs), the EPA must use, and seek public comment on, an analysis of quantifiable and non-quantifiable risk-reduction benefits and cost for each MCL.

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

Since the SDWA became effective, SCW has experienced increased operating costs for testing to determine the levels, if any, of the constituents in SCW's sources of supply and additional expense to lower the level of any such 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 and increased operating costs. The ratemaking process provides SCW with the opportunity to recover prudently incurred capital and operating costs associated with water quality.

There have been no environmental matters that have materially affected or are currently materially affecting SCW's Bear Valley Electric Service CSA. The construction of a proposed 115kv line to serve the Bear Valley Electric CSA is subject to an Environmental Impact Study (EIS). Delays in approval of the EIS could impact service in the area. SCW has, however, taken other measures, including some measures that will be enacted on an emergency basis, to meet load growth and mitigate delay in approval of the EIS.

#### WATER SUPPLY

During 1999, the company supplied a total of 195,886 acre feet of water. Of this amount, approximately 58.2% came from pumped sources and 40.2% was purchased from others, principally the Metropolitan Water District of Southern California (MWD). The remaining amount was supplied by the Bureau of Reclamation (the Bureau) under a no-cost contract. During 1998, the company supplied 179,927 acre feet of water, 60.7% of which came from pumped sources, 39.0% was purchased and the remainder was supplied by 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. The company 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.

The company's water supply and revenues are significantly affected by changes in meteorological conditions. Water sales volumes have been impacted during the last two years by the El Nino/La Nina Southern Oscillation phenomena. El Nino brings substantial rainfall to Southern California and the opposite, La Nina, often means diminished rainfall. During the '80s and '90s, El Nino increased precipitation as much as 250% of normal for some SCW service areas, while La Nina decreased rain levels 30% to 50% of normal.

In 1999, after the 1997-1998 El Nino heavy rain season, La Nina moved rainfall to the north and substantially reduced rainfall in SCW's service areas with some systems experiencing less than 32% of normal rainfall.

In spite of the anticipated La Nina conditions, the 2000 water year supply outlook remains adequate to meet SCW's needs. As of January 2000, California reservoirs stand at 125% of average. This positive outlook is due to the fact that reservoirs are still holding some of the El Nino surplus and groundwater levels are usually not diminished by a single year of below normal precipitation. Although overall groundwater conditions remain at adequate levels, 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.

#### WATER-RELATED OPPORTUNITIES

In late 1998, ASUS was formed to pursue opportunities such as long-term leases, and operation and maintenance contracts of government or municipally-owned water and wastewater systems. Privatization opportunities in California have been few to date and ASUS has focused its efforts on service contracts with municipalities and others in order to build long-term relationships.

#### YEAR 2000 READINESS

The company has no Y2K incidents, business disruptions, failures or legal proceedings to report. There were no actual or anticipated effects or changes to the company'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. The company's general process for addressing the Y2K issue was (i) to inventory all systems that may have a potential Y2K impact, (ii) to determine the materiality of these non-Y2K ready systems, (iii) to replace and test, correct and test, or prepare for the failure of material items that have been determined to be non-Y2K ready, and (iv) to prepare contingency plans, which included, among other things, increased staffing during critical periods, manual back-up for automated systems and the use of portable generators capable of providing power during a black-out.

Not all Y2K problems were necessarily expected to surface in early 2000. The company 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 the company. If the third parties later discover any Y2K problems that are not remedied, resulting problems could include loss of utility services and disruption of water supplies.

Costs incurred to address Y2K issues are estimated to be \$7.5 million. The company has incurred \$4.8 million in costs associated with Y2K readiness at January 2000, \$4.0 million of which is in capital investments. The company believes that these capital expenditures as well as the remaining Y2K-related investments will be recovered through rates. See Note 13 - Year 2000 Readiness Update for additional information.

#### ACCOUNTING STANDARDS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes a new model for accounting for derivative and hedging activities, and supersedes and amends a number of existing standards. Adoption of this statement, with an extended effective date for fiscal years beginning after December 15, 1999, will not have a significant impact on financial position or results of operation.

## FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	1999	1998
	(in thousands)	
<b>ASSETS</b>		
<b>UTILITY PLANT, AT COST</b>		
Water	\$ 532,007	\$ 482,989
Electric	36,349	35,171
	568,356	\$ 518,160
Less - Accumulated depreciation	(151,733)	(138,423)
	416,623	379,737
Construction work in progress	32,972	35,016
Net utility plant	449,595	414,753
	10,583	1,077
<b>OTHER PROPERTY AND INVESTMENTS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	2,189	620
Accounts receivable-customers, less reserves of \$487 in 1999; \$403 in 1998	10,135	7,626
Other accounts receivable	4,347	5,301
Unbilled revenue	11,345	9,303
Materials and supplies, at average cost	1,153	994
Supply cost balancing accounts	4,774	4,300
Prepayments	4,851	5,988
Accumulated deferred income taxes - net	5,546	5,156
Total current assets	44,340	39,288
<b>DEFERRED CHARGES</b>		
Unamortized debt expense and redemption premium	6,811	6,635
Regulatory tax-related assets	19,941	21,506
Other	1,911	1,412
Total deferred charges	28,663	29,553
<b>TOTAL ASSETS</b>	<b>\$ 533,181</b>	<b>\$ 484,671</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION</b>		
Common Shareholders' equity	\$ 158,846	\$ 154,299
Preferred Shares	1,600	1,600
Preferred Shares - mandatory redemption	360	400
Long-term debt	167,363	120,809
Total capitalization	328,169	277,108
<b>CURRENT LIABILITIES</b>		
Notes payable to banks	21,000	38,000
Long-term debt and Preferred Shares - current	340	260
Accounts payable	13,777	10,218
Taxes payable	5,432	5,900
Accrued interest	1,584	1,405
Other	12,832	7,985
Total current liabilities	54,965	63,768
<b>OTHER CREDITS</b>		
Advances for construction	57,485	54,743
Contributions in aid of construction	38,895	36,530
Accumulated deferred income taxes - net	48,302	46,902
Unamortized investment tax credits	3,064	3,155

Regulatory tax-related liability	1,861	1,906
Other	440	559
	-----	-----
Total other credits	150,047	143,795
	-----	-----
TOTAL CAPITALIZATION AND LIABILITIES	\$ 533,181	\$ 484,671
	=====	=====

The accompanying notes are an integral part of these financial statements

## CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31,	
	1999	1998
	( in thousands)	
<b>COMMON SHAREHOLDERS' EQUITY:</b>		
Common Shares, \$2.50 stated value--		
Authorized 30,000,000 shares		
Outstanding 8,957,671 in 1999 and 1998	\$ 22,394	\$ 22,394
Additional paid-in capital	74,937	74,937
Earnings reinvested in the business	61,515	56,968
	-----	-----
	158,846	154,299
	-----	-----
<b>PREFERRED SHARES: \$25 PAR VALUE</b>		
Authorized 64,000 shares		
Outstanding 32,000 shares, 4% Series	800	800
Outstanding 32,000 shares, 4 1/4% Series	800	800
	-----	-----
	1,600	1,600
	-----	-----
<b>PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION</b>		
Requirements: \$25 par value		
Authorized and outstanding 16,000 shares in 1999 and 17,600 shares in 1998, 5% Series	400	440
Less: Preferred Shares to be redeemed within one year	(40)	(40)
	-----	-----
	360	400
	-----	-----
<b>LONG-TERM DEBT</b>		
5.82% notes due 2003	12,500	12,500
6.64% notes due 2013	1,100	1,100
6.80% notes due 2013	2,000	2,000
8.50% fixed rate obligation due 2013	1,798	1,882
Variable rate obligation due 2014	6,000	6,000
Variable rate obligation due 2018	650	630
6.87% notes due 2023	5,000	5,000
7.00% notes due 2023	10,000	10,000
7.55% notes due 2025	8,000	8,000
7.65% notes due 2025	22,000	22,000
5.50% notes due 2026	8,000	8,000
6.81% notes due 2028	15,000	15,000
6.59% notes due 2029	40,000	--
9.56% notes due 2031	28,000	28,000
State Water Project due 2035	7,028	--
Other	587	917
	-----	-----
	167,663	121,029
Less: Current maturities	(300)	(220)
	-----	-----
	167,363	120,809
	-----	-----
<b>TOTAL CAPITALIZATION</b>	<b>\$ 328,169</b>	<b>\$ 277,108</b>
	=====	=====

The accompanying notes are an integral part of these financial statements

## CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31,		
	1999	1998	1997
	(in thousands, except per share amounts)		
<b>OPERATING REVENUES</b>			
Water	\$ 159,693	\$ 134,794	\$ 140,988
Electric	13,338	13,201	12,767
Other	390	65	--
Total operating revenues	173,421	148,060	153,755
<b>OPERATING EXPENSES</b>			
Water purchased	36,143	30,833	38,318
Power purchased for resale	7,119	5,013	5,188
Power purchased for pumping	7,394	7,009	7,554
Groundwater production assessment	7,170	7,567	6,847
Supply cost balancing accounts	(473)	28	2,813
Other operating expenses	15,594	14,459	13,074
Administrative and general expenses	28,600	21,987	22,138
Depreciation and amortization	13,650	12,538	10,952
Maintenance	9,799	7,311	7,301
Taxes on income	13,345	10,130	9,830
Property and other taxes	6,566	6,124	6,282
Total operating expenses	144,907	122,999	130,297
<b>OPERATING INCOME</b>	28,514	25,061	23,458
<b>OTHER INCOME</b>			
Total other income - net	532	769	758
Income before interest charges	29,046	25,830	24,216
<b>INTEREST CHARGES</b>			
Interest on long-term debt	11,294	9,612	8,821
Other interest and amortization of debt expense	1,651	1,595	1,336
Total interest charges	12,945	11,207	10,157
<b>NET INCOME</b>	16,101	14,623	14,059
Dividends on Preferred Shares	(88)	(90)	(92)
<b>EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS</b>	\$ 16,013	\$ 14,533	\$ 13,967
<b>BASIC EARNINGS PER COMMON SHARE</b>	\$ 1.79	\$ 1.62	\$ 1.56
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	8,958	8,958	8,957

The accompanying notes are an integral part of these financial statements

## CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

	Common Shares		Additional Paid-in Capital	Earnings Reinvested in the Business
	Number of Shares	Amount		
	-----	-----	-----	-----
	(in thousands)			
BALANCES AT DECEMBER 31, 1996	8,886	\$22,215	\$73,645	\$50,906
Add:				
Net Income				14,059
Issuance of Common Shares for public offering	72	179	1,292	
Deduct:				
Dividends on Preferred Shares				92
Dividends on Common Shares - \$1.245 per share				11,151
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 1997	8,958	\$22,394	\$74,937	\$53,722
Add:				
Net Income				14,623
Deduct:				
Dividends on Preferred Shares				90
Dividends on Common Shares - \$1.26 per share				11,287
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 1998	8,958	\$22,394	\$74,937	\$56,968
Add:				
Net Income				16,101
Deduct:				
Dividends on Preferred Shares				88
Dividends on Common Shares - \$1.28 per share				11,466
	-----	-----	-----	-----
BALANCES AT DECEMBER 31, 1999	8,958	\$22,394	\$74,937	\$61,515
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	1999	1998	1997
	(in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 16,101	\$ 14,623	\$ 14,059
Adjustments for non-cash items:			
Depreciation and amortization	14,364	15,368	11,170
Deferred income taxes and investment tax credits	2,440	5,241	826
Other - net	1,066	1,394	873
Changes in assets and liabilities:			
Customer receivables	(1,555)	918	(673)
Supply cost balancing accounts	(474)	(14)	1,987
Accounts payable	3,559	(1,552)	(1,095)
Taxes payable	(468)	(3,215)	3,338
Other - net	3,977	438	341
Net cash provided	39,010	33,201	30,826
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Construction expenditures	(57,823)	(43,623)	(36,799)
Net cash used	(57,823)	(43,623)	(36,799)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Issuance of Common Shares	--	--	1,472
Issuance of long-term debt and lease obligations	47,028	15,000	8,000
Receipt of advances for and contributions in aid of construction	5,300	3,381	1,302
Refunds on advances for construction	(2,957)	(2,651)	(2,957)
Retirement or repayments of long-term debt and redemption of Preferred Shares - net	(435)	(9,488)	(198)
Net change in notes payable to banks	(17,000)	12,000	10,000
Common and Preferred dividends paid	(11,554)	(11,386)	(11,243)
Net cash provided	20,382	6,856	6,376
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,569	(3,566)	403
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	620	4,186	3,783
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,189	\$ 620	\$ 4,186
<b>TAXES AND INTEREST PAID:</b>			
Income taxes paid	\$ 12,137	\$ 5,430	\$ 6,338
Interest paid	11,834	11,391	9,451
<b>NON-CASH TRANSACTIONS:</b>			
Property installed by developers and conveyed to company	\$ 4,096	\$ 1,797	\$ 2,082

The accompanying notes are an integral part of these financial statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

American States Water Company (AWR) is the parent company of Southern California Water Company (SCW) and American States Utility Services, Inc. (ASUS). SCW is a public utility engaged principally in the purchase, production, distribution and sale of water as well as in the distribution of electricity in several mountain communities. SCW is regulated by the California Public Utilities Commission (CPUC) as to its water and electric business including properties, rates, services, facilities and other matters. ASUS performs non-regulated, water related services and operations on a contract basis. The consolidated financial statements include the accounts of AWR, SCW and ASUS. Virtually all of AWR's assets and revenues are those of SCW.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements include the accounts of AWR and its wholly-owned subsidiaries, SCW and ASUS, collectively referred to as the company. Inter-company transactions and balances have been eliminated.

The accounting records for SCW are maintained in accordance with the Uniform System of Accounts prescribed by the CPUC. The preparation of these financial statements required the use of certain estimates by management in determining the company's assets, liabilities, revenues and expenses.

**Property and Depreciation:** The company capitalizes, as utility plant, the cost of additions and replacements of retirement units. Such cost includes labor, material and certain indirect charges. Depreciation is computed on the straight-line, remaining-life basis. For the years 1999, 1998 and 1997 the aggregate provisions for depreciation approximated 2.91%, 2.79%, and 2.77% of the beginning of the year depreciable plant, respectively.

**Interest:** Interest is generally not capitalized for financial reporting purposes as such procedure is usually not followed for rate-making purposes.

**Revenues:** Revenues include amounts billed to customers and an amount of unbilled revenue representing amounts to be billed for usage from the last meter reading date to the end of the accounting period.

**Basic Earnings Per Common Share:** Basic Earnings per Common Share are based upon the weighted average number of Common Shares outstanding and net income after deducting preferred dividend requirements. There are no dilutive securities. Accordingly, diluted earnings per share is not calculated.

**Supply Cost Balancing Accounts:** As permitted by the CPUC, the company maintains water and electric supply cost balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Recoverability of such costs is recorded in income and charged to balancing accounts when such costs are incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments. The company accrues interest on its supply cost balancing accounts at the rate prevailing for 90-day commercial paper.

**Debt Issue Expense and Redemption Premiums:** Original debt issue expenses are amortized over the lives of the respective issues. Premiums paid on the early redemption of debt which is reacquired through refunding are deferred and amortized over the life of the debt issued to finance the refunding. The redemption premium on debt reacquired without refunding is amortized over the remaining period the debt would have been outstanding.

**Other Credits:** Advances for construction represent amounts advanced by developers which are generally refundable at either a rate of 22% of the revenue received from the installations for which funds were advanced or in equal annual installments over a 40-year period. Contributions-in-aid-of-construction are similar to advances, but require no refunding and are amortized over the useful lives of the related property.

**Cash and Cash Equivalents:** For purposes of the Statements of Cash Flows, cash and cash equivalents include short-term cash investments with an original maturity of three months or less.

**Financial Instrument Risk:** The company does not carry any financial instruments with off-balance sheet risk nor do its operations result in concentrations of credit risk.

Fair Value of Financial Instruments: The table below estimates the fair value of each represented class of financial instrument. For cash and cash equivalents, accounts receivable and short-term debt, the carrying amount is used. Otherwise, rates available to the company at December 31, 1999 and 1998 for debt with similar terms and remaining maturities were used to estimate fair value for long-term debt. Changes in the assumptions will produce differing results.

(in thousands)	1999		1998	
	CARRYING AMOUNT	FAIR VALUE	Carrying amount	Fair value
	(in thousands)			
Financial assets:				
Cash	\$ 2,189	\$ 2,189	\$ 620	\$ 620
Accounts receivable	25,827	25,827	22,230	22,230
Financial liabilities:				
Short-term debt	\$ 21,000	\$ 21,000	\$ 38,000	\$ 38,000
Long-term debt	\$167,663	\$161,843	\$120,809	\$135,092

#### NOTE 2 - CAPITAL STOCK

All of the series of Preferred Shares outstanding at December 31, 1999, are redeemable at the option of the company. At December 31, 1999, the redemption price per share for each series of \$25 Preferred Shares was \$27.00, \$26.50 and \$25.25 for the 4%, 4% and 5% Series, respectively. To each of the redemption prices must be added accrued and unpaid dividends to the redemption date.

The \$25 Preferred Shares, 5% Series, are subject to mandatory redemption provisions of 1,600 shares per year. The annual aggregate mandatory redemption requirements for this Series for the five years subsequent to December 31, 1999 is \$40,000 each year.

In 1996, the company issued 1,000,000 Common Shares through a secondary public offering. In January 1997, the company issued 71,500 Common Shares through a secondary public offering. The net proceeds from this sale were used to repay a portion of short-term debt then outstanding.

For the years ended December 31, 1999, December 31, 1998 and December 31, 1997, all shares issued under the company's Common Share Purchase and Dividend Reinvestment Plan (DRP) and the 401(k) Plan were purchased on the open market. There were 500,000 and 571,408 Common Shares reserved for issuance under the DRP and the 401(k) Plan, respectively, at December 31, 1999. Shares reserved for the 401(k) Plan are in relation to company matching contributions and for investment purposes by participants.

As of December 31, 1999 there were no retained earnings restricted under any of the company's debt instruments, as to the payment of cash dividends on Common Shares.

In 1998, the board of directors adopted a Shareholder Rights Plan (Rights Plan) and authorized a dividend distribution of one right (a Right) to purchase 1/1000th of a Junior Participating Preferred Share for each outstanding Common Share. The Rights Plan became effective in September 1998 and will expire in September 2008. The Rights Plan is designed to provide shareholders' protection and to maximize shareholder value by encouraging a prospective acquirer to negotiate with the board.

Each Right represents a right to purchase 1/1000th of Junior Participating Preferred Share at the price of \$120, subject to adjustment (the Purchase Price). Each Junior Participating Preferred Share is entitled to receive a dividend equal to 1000 times any dividend paid on Common Shares and 100 votes per share in any shareholder election. The Rights become exercisable upon occurrence of a Distribution Date. A Distribution Date event occurs if (i) any person accumulates 15% of the then outstanding Common Share, (ii) any person presents a tender offer which caused the person's ownership level to exceed 15% and the board determines the tender offer not to be fair to AWR's shareholders, or (iii) the board determines that a shareholder maintaining a 15% interest in the Common Shares could have an adverse impact on AWR or could attempt to pressure AWR to repurchase the holder's shares at a premium.

Until the occurrence of a Distribution Date, each Right trades with the Common Share and is not separately transferable. When a Distribution Date occurs, AWR would distribute separately Rights Certificates to Common Shareholders and the Rights would subsequently trade separate from the Common Shares and each holder of a Right, other than the acquiring person whose Rights will thereafter be void, will have the right to receive upon exercise at its then current Purchase Price that number of Common Shares having a market value of two times the Purchase Price of the Right. If AWR merges into the acquiring person or enters

into any transaction that unfairly favors the acquiring person or disfavors AWR's other shareholders, the Right becomes a right to purchase Common Shares of the acquiring person having market value of two times the Purchase Price.

The board of directors may determine that in certain circumstances a proposal which would cause a Distribution Date is in the best interest of AWR's shareholders. Therefore, the Board of Directors may, at its option, redeem the Rights at a redemption price of \$0.01 per Right.

#### NOTE 3 - COMPENSATING BALANCES AND BANK DEBT

At December 31, 1999, SCW maintained \$47 million in aggregate borrowing capacity with three commercial banks with no compensating balances required. Of this amount, \$21 million was outstanding at year-end. Loans can be obtained at the option of SCW and bear interest at rates based on floating prime borrowing rates or at money market rates.

Short-term borrowing activities for the last three years were as follows:

	December 31,		
	----- 1999 -----	----- 1998 -----	----- 1997 -----
	(in thousands, except percent)		
Balance outstanding at December 31,	\$21,000	\$38,000	\$26,000
Interest rate at December 31,	7.35%	5.86%	6.39%
Average amount outstanding	8,775	19,309	\$15,678
Weighted average annual interest rate	5.11%	6.78%	6.27%
Maximum amount outstanding	\$21,000	\$39,000	\$32,000
	-----	-----	-----

#### NOTE 4 - LONG-TERM DEBT

In March 1998, SCW sold the remaining \$15 million under its Series B Medium Term Note Program and in December 1998, SCW redeemed all of its outstanding 10.10% Notes. In January 1999, \$40 million of Series C Medium Term Notes were sold. The funds were used initially to repay short-term bank borrowings and, after that, to fund construction expenditures. The company has no mortgage debt, and leases and other similar financial arrangements are not material.

SCW has posted an Irrevocable Letter of Credit, which expires July 31, 2000, in the amount of \$646,631 as security for its self-insured workers' compensation plan. SCW has also provided an Irrevocable Letter of Credit, which expires July 31, 2001, in the amount of \$6,296,000 to a trustee with respect to the variable rate obligation issued by the Three Valleys Municipal Water District.

Annual maturities of all long-term debt, including capitalized leases, amount to \$303,356, \$231,559, \$246,528, \$262,036 and \$278,644 for the five years ending December 31, 2000 through 2004, respectively.

#### NOTE 5 - TAXES ON INCOME

The company provides deferred income taxes for temporary differences under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109), for certain transactions which are recognized for income tax purposes in a period different from that in which they are reported in the financial statements. The most significant items are the tax effects of accelerated depreciation, the supply cost balancing accounts and advances for and contributions-in-aid-of-construction. SFAS No. 109 also requires that rate-regulated enterprises record deferred income taxes for temporary differences accorded flow-through treatment at the direction of a regulatory commission. The resulting deferred tax assets and liabilities are recorded at the expected cash flow to be reflected in future rates. Since the CPUC has consistently permitted the recovery of previously flowed-through tax effects, SCW has established regulatory liabilities and assets offsetting such deferred tax assets and liabilities.

Deferred investment tax credits are being amortized to other income ratably over the lives of the property giving rise to the credits.

The significant components of deferred tax assets and deferred tax liabilities, as reflected in the balance sheets, and the accumulated net deferred income tax liabilities at December 31, 1999 and 1998 were:

	December 31,	
	1999	1998
	(in thousands)	
Deferred tax assets:		
Balancing accounts	\$ (175)	\$ 33
State tax effect	5,721	5,123
	5,546	5,156
Deferred tax liabilities		
Depreciation	(44,939)	(43,442)
Advances and contributions	15,862	16,694
Other property related	(10,007)	(11,488)
Other non-property related	(9,218)	(8,666)
	(48,302)	(46,902)
Accumulated deferred income taxes - net	\$(42,756)	\$(41,746)

The current and deferred components of income tax expense are as follows:

	December 31,		
	1999	1998	1997
	(in thousands)		
Current			
Federal	\$ 9,360	\$ 5,219	\$ 7,205
State	2,799	1,727	2,287
Total current tax expense	12,159	6,946	9,492
Deferred - Federal and State:			
Accelerated depreciation	3,405	3,319	2,996
Balancing accounts	(207)	6	(871)
Advances and contributions	--	--	(210)
California privilege year franchise tax	(970)	(544)	(617)
Other	(664)	(398)	(566)
Total deferred tax expense	1,564	2,383	732
Total income tax expense	13,723	9,329	10,224
Income taxes included in operating expenses	13,345	10,130	9,830
Income taxes included in other income and expenses - net	378	(801)	394
Total income tax expense	\$ 13,723	\$ 9,329	\$ 10,224

Additional information regarding taxes on income is set forth in the following table:

	December 31,		
	1999	1998	1997
	(in thousands, except percent)		
Federal taxes on pre-tax income at statutory rates	\$ 10,438	\$ 8,470	\$ 8,451
Increase (decrease) in taxes resulting from:			
State income tax expense	2,605	1,654	1,864
Depreciation	1,184	944	853
Federal benefit of state taxes	(912)	(579)	(652)
Adjustments to prior years' provisions	433	(97)	(143)
Payment of premium on redemption	66	(813)	--

Other - net	(91)	(250)	(149)
Total income tax expense	\$ 13,723	\$ 9,329	\$ 10,224
Pre-tax income	\$ 29,824	\$ 23,952	\$ 24,145
Effective income tax rate	46.0%	38.9%	42.3%

## NOTE 6 - EMPLOYEE BENEFIT PLANS

The company maintains a pension plan (the Plan) which provides eligible employees (those age 21 and older, with one year of service) monthly benefits upon retirement based on average salaries and length of service. The normal retirement benefit is equal to 2% of the five highest consecutive years average earnings multiplied by the number of years of credited service, up to a maximum of 40 years, reduced by a percentage of primary social security benefits. There is also an early retirement option. Annual contributions are made to the Plan which comply with the funding requirements of the Employee Retirement Income Security Act (ERISA). At December 31, 1999, the company had 713 participants in the Plan, 54 of these are employees covered by collective bargaining agreements, the earliest of which expires in 2001.

The company also provides all active employees medical, dental and vision care benefits through a medical insurance plan. Eligible employees who retired prior to age 65, and/or their spouses, were able to retain the benefits under the active plan until reaching age 65. Eligible employees, upon reaching age 65, and those employees retiring at or after age 65, and/or their spouses, receive coverage through a Medicare supplemental insurance policy paid for by the company subject to an annual cap limit.

The CPUC has issued a decision which provides for the recovery in rates of tax-deductible contributions made to a separately trusteed fund. In accordance with that decision,

SCW established two separate trusts in 1995, one for those retirees who were subject to a collective bargaining agreement and another for all other retirees. The company's funding policy is to contribute annually an amount at least equal to the revenues authorized to be collected through rates for post-retirement benefit costs. Post-retirement benefit costs for 1993, 1994 and 1995 were estimated at a total of \$1.6 million and have been recorded as a regulatory asset for recovery over a 20 year period. The unamortized balance at December 31, 1999 was approximately \$610,000.

The following table sets forth the Plan's funded status and amounts recognized in the company's balance sheets and the components of net pension cost and accrued post-retirement liability at December 31, 1999 and 1998:

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
	(in thousands)			
<b>CHANGE IN BENEFIT OBLIGATION:</b>				
Benefit obligation at beginning of year	\$ 38,572	\$ 33,410	\$ 4,363	\$ 4,503
Service cost	1,963	1,597	125	112
Interest cost	2,538	2,278	305	283
Actuarial loss/(gain)	(6,255)	2,514	(171)	(368)
Benefits paid	(1,305)	(1,227)	(191)	(167)
Benefit obligation at end of year	\$ 35,513	\$ 38,572	\$ 4,431	\$ 4,363
<b>CHANGES IN PLAN ASSETS:</b>				
Fair value of plan assets at beginning of year	\$ 39,541	\$ 33,433	\$ 1,442	\$ 1,104
Actual return of plan assets	8,277	6,051	25	44
Employer contributions	1,264	1,284	484	461
Benefits paid	(1,306)	(1,227)	(191)	(167)
Fair value of plan assets at end of year	\$ 47,776	\$ 39,541	\$ 1,760	\$ 1,442
<b>RECONCILIATION OF FUNDED STATUS:</b>				
Funded status	\$ 12,263	\$ 969	\$(2,671)	\$(2,921)
Unrecognized transition obligation	57	114	6,288	6,707
Unrecognized net loss/(gain)	(10,683)	677	(1,869)	(1,860)
Unrecognized prior service cost	355	400	(3,228)	(3,427)
Prepaid/(accrued) pension cost	\$ 1,992	\$ 2,160	\$(1,480)	\$(1,501)
<b>WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31:</b>				
Discount rate	7.75%	6.50%	7.75%	6.50%
Long-term rate of return	8.00%	8.00%	8.00%	8.00%
Salary assumption	4.00%	4.00%	--	--

A sliding scale for assumed health care cost increases was used for both periods, starting at 8% in 1999 and then remaining at 6% thereafter.

The components of net periodic post-retirement benefits costs for 1999 and 1998 are as follows:

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
	(in thousands)			
<b>COMPONENTS OF NET PERIODIC BENEFITS COST</b>				
Service cost	\$ 1,963	\$ 1,597	\$ 125	\$ 112
Interest cost	2,538	2,278	305	283
Actual return on plan assets	(8,277)	(6,051)	(25)	(44)
Net amortization	5,207	3,476	58	67
Net periodic pension cost	\$ 1,431	\$ 1,300	\$ 463	\$ 418

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase -----	1-PERCENTAGE-POINT DECREASE -----
	(in thousands)	
Effect on total of service and interest cost components	\$ 13	\$ (12)
Effect on postretirement benefit obligation	177	(156)

The company has a 401(k) Investment Incentive Program under which employees may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Company contributions to the 401(k) are based upon a percentage of individual employee contributions and, for 1999, 1998 and 1997, totaled \$920,340, \$874,113, and \$785,687, respectively.

#### NOTE 7 - BUSINESS RISKS AND CONCENTRATION OF SALES

The company's utility operations are engaged in supplying water and electric service to the public. SCW is required to provide service and grant credit to customers within its defined service areas. Although the company has a diversified base of residential, industrial and other customers, revenues derived from commercial and residential water customers accounted for approximately 90% of total water revenues in 1999 and 91%

in 1998. The company faces additional risks associated with weather conditions, adequacy and quality of water supplies, regulatory decisions, pronouncements and laws, water-related litigation, general business conditions and condemnation .

Approximately 40% of the SCW's water supply is purchased from wholesalers of imported water, with the remainder produced from company wells. The long-term availability of imported water supplies is dependent upon, among other things, drought conditions throughout the state, increases in population, water quality standards and legislation that may potentially reduce water supplies. SCW does not anticipate any constraints on its imported water supplies in 2000.

#### NOTE 8 - CONTINGENCIES

In 1998, ASUS was formed to pursue non-regulated opportunities such as long-term leases, and operation and maintenance contracts of governmentally-owned water and wastewater systems. In 1999, the company terminated its Golden State Water Company joint venture. The company expensed approximately \$336,000 against future losses and capital account adjustments in 1998. There was no significant financial impact in 1999 associated with the termination.

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.

SCW has been named as a defendant in 11 lawsuits which allege that SCW delivered contaminated water to its customers. Plaintiffs in these actions seek damages, including general, special, and punitive damages, according to proof of trial, as well as attorney's fees on certain causes of action, costs of suit, and other unspecified relief. Nine of the lawsuits involve CSAs located in Los Angeles county in the southern portion of California; two of the lawsuits involve a CSA located in Sacramento county in Northern California. On September 1, 1999, the 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 pertaining to water quality filed against water utilities, including SCW. Seven out of 11 lawsuits against SCW had been ordered for dismissal by the state Court of Appeal. On October 11, 1999, one group of plaintiffs appealed the decision 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 2001.

In light of the breadth of plaintiff's claims, the lack of factual information regarding plaintiff's claims and injuries, if any, the fact that no discovery has yet been completed, SCW is unable to determine at this time what, if any, potential liability it may have with respect to these claims. SCW intends to vigorously defend itself against these allegations. Management can not predict the outcome of these proceedings and if SCW is found liable, SCW would pursue recovery through its insurance coverage providers.

In response to those lawsuits and similar actions, in March 1998 the CPUC issued an Order Instituting Investigation (OII) directed to all Class A and B water utilities in California, including SCW, into 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 notes the constitutional and statutory jurisdiction of the CPUC and the DOHS to establish and enforce adherence to water quality standards for water delivered by utilities to their customers and, in the case of the CPUC, to establish rates which permit water utilities to furnish water that meets the established water quality standards at prices which are both affordable and that allow the utility to earn a reasonable return on its investment. SCW has made its filing in this proceeding on a series of questions dealing with current drinking water standards, compliance by water utilities with such standards, appropriate remedies for failure to comply with drinking standards and whether stricter or additional drinking water standards are required. The Water Division of the CPUC has issued its report based on these filings by the utilities.

A final decision in the OII is anticipated in 2000. The OII leaves open the possibility of evidentiary hearings and further action by the

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

Management believes that proper insurance coverage and reserves are in place to insure against anticipated property, general liability and workers' compensation claims.

**NOTE 9 - CONSTRUCTION PROGRAM**

SCW's 2000 construction budget provides for gross expenditures of approximately \$59 million, \$3.6 million of which is anticipated to be obtained from developers and others. AWR and ASUS have no material capital expenditure programs.

**NOTE 10 - ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The table below presents SCW's provision for doubtful accounts charged to expense and accounts written off, net of recoveries for the last three years.

	December 31,		
	1999	1998	1997
	(in thousands)		
Balance at beginning of year	\$ 403	\$ 466	\$ 387
Provision charged to expense	852	631	707
Accounts written off, net of recoveries	(768)	(694)	(628)
Balance at end of year	\$ 487	\$ 403	\$ 466

Neither AWR nor ASUS have established any provision for doubtful accounts.

**NOTE 11 - BUSINESS SEGMENTS**

The company has two principal business units: a water and electric distribution unit, through its SCW subsidiary, and a non-regulated activity unit through the 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. Included in the amounts set forth, certain assets have been allocated. The identifiable assets are net of respective accumulated provisions for depreciation.

	YEAR ENDED DECEMBER 31, 1999			
	WATER			ELECTRIC
	REGION I	REGION II	REGION III	ELECTRIC
	(in thousands)			
Operating revenues	\$ 27,221	\$ 70,770	\$ 61,692	\$13,348
Operating income before income taxes	6,567	15,841	16,022	3,821
Identifiable assets	108,675	140,175	177,457	25,725
Depreciation expense	2,736	4,041	5,395	1,344
Capital additions	\$ 12,966	\$ 21,926	\$ 14,513	\$ 2,173

	Year Ended December 31, 1998			
	Water			Electric
	Region I	Region II	Region III	Electric
	(in thousands)			
Operating revenues	\$ 24,927	\$ 57,273	\$ 52,582	\$13,211
Operating income before income taxes	6,799	11,732	13,143	3,847
Identifiable assets	97,463	123,044	169,264	24,981
Depreciation expense	2,551	3,378	4,701	1,640
Capital additions	\$ 13,302	\$ 14,452	\$ 15,795	\$ 1,720

## Year Ended December 31, 1998

	Water			Electric
	Region I	Region II	Region III	
	(in thousands)			
Operating revenues	\$ 24,340	61,085	55,551	\$12,779
Operating income before income taxes	5,897	9,593	13,709	4,089
Identifiable assets	87,039	112,556	158,934	25,095
Depreciation expense	2,306	3,042	4,604	1,001
Capital additions	\$ 10,007	\$ 15,431	\$ 11,671	\$ 2,116

## NOTE 12 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The quarterly financial information presented below is unaudited. The business of the company is of a seasonal nature and it is management's opinion that comparisons of earnings for the quarter periods do not reflect overall trends and changes in the company's operations.

	Operating Revenues		Operating Income		Net Income		Earnings per Share	
	1999	1998	1999	1998	1999	1998	1999	1998
	(in thousands, except per share amounts)							
First quarter	\$ 36,132	\$ 29,955	\$ 5,854	\$ 4,382	\$ 2,977	\$ 1,843	\$ 0.33	\$ 0.20
Second quarter	42,116	35,001	7,251	5,586	4,406	2,767	0.49	0.31
Third quarter	51,597	47,002	10,266	9,432	6,690	6,374	0.74	0.71
Fourth quarter	43,576	36,102	5,143	5,661	2,028	3,639	0.23	0.40
Year	\$173,421	\$148,060	\$ 28,514	\$ 25,061	\$ 16,101	\$ 14,623	\$ 1.79	\$ 1.62

## NOTE 13 - YEAR 2000 READINESS UPDATE

The company has no Y2K incidents, business disruptions, failures or legal proceedings to report. There were no effects or changes to the company's operating trends or revenue patterns as a result of the millennium turnover.

SCW formally announced its 100% Y2K Ready status when it filed its compliance report with the CPUC on November 1, 1999. SCW will be submitting the last CPUC report on this issue by March 1, 2000.

The company's general process for addressing the Y2K issue was (i) to inventory all systems that may have a potential Y2K impact, (ii) to determine the materiality of these non-Y2K ready systems, (iii) to replace and test, correct and test, or prepare for the failure of material items that have been determined to be non-Y2K ready, and (iv) to prepare contingency plans.

The company is significantly dependent on third party suppliers, such as energy and telecommunication companies and wholesale water suppliers. In order to conduct its business, the company initiated due diligence with certain of its major service providers to address their Y2K readiness. In the event that such suppliers might be adversely affected by Y2K, the company prepared its contingency plan which included, among other things, increased staffing during critical periods, manual back-up for automated systems and the use of portable generators capable of providing power during a black-out. Several "dry runs" were exercised in 1999, which simulated Y2K situations that implemented the company's contingency plan. The dry runs proved to be effective exercises that identified areas of strength and weakness, and provided real-life experience from which to make informed decisions about Y2K preparation and contingency planning.

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

On September 2, 1999, the CPUC issued an order denying regulated water utilities the authority to create memorandum accounts for Y2K expenses. The order, however, provides that after January 1, 2000, regulated water utilities may file for recovery of capital investment, not otherwise included in current rates, associated with Y2K mitigation efforts. Y2K final expenditures have been estimated at approximately \$7.5 million. The company has spent \$4.8 million at January, 2000, \$4.0 million of which is in capital investments. The company believes that these capital expenditures as well as the remaining Y2K-related investments will be recovered through rates.

## REPORT OF MANAGEMENT

The consolidated financial statements contained in this annual report were prepared by the management of American States Water Company, which is responsible for their integrity and objectivity. The consolidated financial statements were prepared in accordance with generally accepted accounting principles and include, where necessary, amounts based upon management's best estimates and judgments. All other financial information in the annual report is consistent with the consolidated financial statements and is also the responsibility of management.

The company maintains systems of internal control which are designed to help safeguard the assets of the company and provide reasonable assurance that accounting and financial records can be relied upon to generate accurate financial statements. These systems include the hiring and training of qualified personnel, appropriate segregation of duties, delegation of authority and an internal audit function which has reporting responsibility to the Audit Committee of the board of directors.

The Audit Committee, composed of three outside directors, exercises oversight of management's discharge of its responsibilities regarding the systems of internal control and financial reporting. The committee periodically meets with management, the internal auditor and the independent accountants to review the work and findings of each. The committee also reviews the qualifications of, and recommends to the board of directors, a firm of independent accountants.

The independent accountants, Arthur Andersen LLP, have performed an audit of the consolidated financial statements in accordance with generally accepted auditing standards. Their audit gave consideration to the company's system of internal accounting control as a basis for establishing the nature, timing and scope of their work. The result of their work is expressed in their Report of Independent Public Accountants.

[Signatures of Floyd E. Wicks and McClellan Harris III]

Floyd E. Wicks  
President, Chief Executive Officer

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

February 10, 2000

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of American States Water Company:

We have audited the consolidated balance sheets and consolidated statements of capitalization of American States Water Company (a California corporation) as of December 31, 1999 and 1998 and the related consolidated statements of income, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American States Water Company as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

[Signature of Arthur Andersen LLP]  
Arthur Andersen LLP  
Los Angeles, California

February 10, 2000

## SHAREHOLDER INFORMATION

## ANNUAL MEETING OF SHAREHOLDERS

All shareholders are invited to attend the Annual Meeting of Shareholders which will be held on Tuesday, May 2, 2000, beginning at 9:00 am, at the Industry Hills Sheraton, One Industry Hills Parkway, City of Industry, California 91744. Notice of meeting and proxy materials will be mailed.

## STOCK LISTING

Common Shares of American States Water Company are traded on the New York Stock Exchange under the symbol AWR. The high and low NYSE prices and the dividends paid on the Common Shares for the past two years were:

1999	HIGH	LOW	DIVIDENDS PAID
First quarter	\$ 30	\$23 9/16	\$ 0.32
Second quarter	29 1/4	22 3/16	0.32
Third quarter	37 1/8	28 3/8	0.32
Fourth quarter	39 3/4	31 3/4	0.32
			\$ 1.28

1998	High	Low	Dividends Paid
First quarter	\$ 26	\$23 1/16	\$ 0.315
Second quarter	27 1/8	21 1/8	0.315
Third quarter	27	23 1/4	0.315
Fourth quarter	29 1/4	24 7/8	0.315
			\$ 1.260

## INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Arthur Andersen LLP  
633 West Fifth Street  
Los Angeles, CA 90071

## CORPORATE REPORTS

Shareholders with questions, or who wish to obtain a copy of the company's reports to the Securities and Exchange Commission without charge, should contact:

American States Water Company  
Attn: Corporate Secretary  
630 East Foothill Boulevard  
San Dimas, CA 91773  
Phone: (909) 394-3600  
Fax: (909) 394-1382

## SHAREHOLDER ASSISTANCE

Shareholders with questions about replacement of dividend checks, transferring stock, replacing lost or stolen certificates or other matters related to their ownership of stock, should contact:

ChaseMellon Shareholder Services, L.L.C.  
Overpeck Centre  
85 Challenger Road  
Ridgefield Park, NJ 07660  
(888) 816-6998  
<http://shrrelations@chasemellon.com>

## COMMON SHARE PURCHASE AND DIVIDEND REINVESTMENT PLAN

The company has a Common Shares Purchase and Dividend Reinvestment Plan ("Plan") that is sponsored and administered by The Chase Manhattan Bank. The Plan provides a simple and cost-effective method for current and potential shareholders to build ownership in the company through the direct purchase of Common Shares from the company and the reinvestment of their cash dividends. A Prospectus and enrollment form may be obtained from ChaseMellon Shareholder Services, L.L.C. at (800) 842-7629 or from the company at (877) 463-6297 (INFOAWR).

## 2000 DIVIDEND SCHEDULE

The following schedule shows the anticipated Common and Preferred Share record and payment dates for 2000:

## Record Dates

-----

February 7  
May 5  
August 8  
November 7

## Payment Dates

-----

March 1  
June 1  
September 1  
December 1

## INTERNET ADDRESS

<http://www.aswater.com>

## STATISTICAL REVIEW

	1999	1998	1997	1996
	-----	-----	-----	-----
	(in thousands, except per share and per customer amounts)			
<b>FINANCIAL INFORMATION</b>				
Revenues by Classification				
Residential and Commercial	\$144,273	\$123,271	\$131,007	\$126,456
Industrial	2,278	1,917	1,998	1,847
Fire Service	1,374	1,329	1,319	1,269
Other - Water	11,768	8,277	6,664	10,425
Total Water Revenue	159,693	134,794	140,988	139,997
Electric Revenue	13,338	13,201	12,767	11,532
Other Revenue	390	65	--	--
Total Operation Revenues	173,421	148,060	153,755	151,529
Net Income	16,101	14,623	14,059	13,460
Earnings Available for Common Shareholders	16,013	14,533	13,967	13,366
Earnings per Common Share	1.79	1.62	1.56	1.69
Dividends Declared per Common Share	1.28	1.26	1.25	1.23
Book Value per Common Share	17.73	17.23	16.86	16.52
Total Assets	533,181	484,671	457,074	430,922
Net Utility Plant	449,595	414,753	383,623	357,776
Capital Additions	51,578	45,269	39,226	34,374
Long-term Debt (Net)	167,363	120,809	115,286	107,190
Preferred Shares	1,600	1,600	1,600	1,600
Preferred Shares -- Mandatory Redemption	360	400	440	480
Investment per Customer	\$ 2,267	\$ 2,099	\$ 1,900	\$ 1,808
<b>OPERATION INFORMATION</b>				
Water Sold by Classification (mg)				
Residential and Commercial	53,742	49,302	54,623	52,843
Industrial	853	832	899	828
Fire Service	411	649	417	831
Other	4,828	4,124	5,070	4,932
Total Water	59,834	54,907	61,009	59,434
Total Electric Sales (mwh)	127,584	123,791	121,315	117,139
Customers by Classification				
Residential and Commercial	238,511	237,157	236,270	235,244
Industrial	328	332	331	333
Fire Service	3,140	3,112	2,964	2,925
Other	2,107	2,033	2,016	2,046
Total Water	244,086	242,634	241,581	240,548
Electric	21,181	20,865	20,698	20,437
Total Company	265,267	263,499	262,279	260,985
Water Production by Source (mg)				
Purchased	25,647	22,885	28,894	27,147
Pumped -- Electric	36,969	35,596	34,531	35,216
Pumped -- Gas	179	75	316	40
Gravity and Surface	1,035	74	1,147	932
Total Supply	63,830	58,630	64,888	63,335
Miles of Main in Service	2,742	2,654	2,638	2,603
Number of Employees	492	470	467	463

mg=Millions of Gallons mwh=Mega-Watt Hours



## CUSTOMER SERVICE AREAS SERVED BY SOUTHERN CALIFORNIA WATER COMPANY

## NUMBER OF CUSTOMERS

## REGION I

Northern District	
Arden-Cordova	13,835
Bay Point	4,879
Clearlake	2,110
Coastal District	
Los Osos	3,137
Ojai	2,782
Santa Maria	12,690
Simi Valley	12,683

## REGION II

Central District	
Central Basin East	19,681
Central Basin West	19,359
Culver City	9,340
Southwest District	49,444

## REGION III

Foothill District	
Claremont	10,458
San Dimas	15,674
San Gabriel Valley	11,751
Mountain/Desert District	
Apple Valley	2,350
Barstow	8,430
Calipatria	1,152
Morongo Valley	837
Wrightwood	2,540
Orange County District	
Los Alamitos	26,361
Placentia	14,593

TOTAL WATER	244,086
BEAR VALLEY ELECTRIC SERVICE	21,181
	-----

TOTAL SCWCUSTOMERS	265,267
--------------------	---------

[map of California showing service areas]

Inside Back Cover

CORPORATE INFORMATION

BOARD OF DIRECTORS OF AMERICAN STATES WATER COMPANY, SOUTHERN CALIFORNIA WATER COMPANY AND AMERICAN STATES UTILITY SERVICES, INC.

Lloyd E. Ross (58,4)  
(Chairman of the Board of Directors)  
Managing Partner, Invermex L.P.  
Irvine, California

Floyd E. Wicks (56,10) (c)  
President and Chief Executive Officer

James L. Anderson (56,3) (a,c)  
(Chairman of the company's Compensation Committee)  
Senior Vice President  
Americo Life Inc.  
Austin, Texas

Jean E. Auer (63,4) (a,c)  
(Chairperson of the company's Nominating and Governance Committee)  
Consultant to the San Francisco Estuary Project  
and member of the Board of Directors  
of the Water Education Foundation  
Council Member of the Town of  
Hillsborough, California

N. P. Dodge, Jr. (62,9) (a,b)  
President, N.P. Dodge Company  
Omaha, Nebraska

Anne M. Holloway (47,2) (a,b)  
Vice President, Navigant Consulting Inc.  
Atherton, California

Robert F. Kathol (58,4) (a,b)  
(Chairman of the company's Audit and Finance Committee)  
Executive Vice President  
Kirkpatrick, Pettis, Smith, Polian Inc.  
Omaha, Nebraska

ELECTED OFFICERS

Lloyd E. Ross (58,1) (d)  
Chairman of the Board

Floyd E. Wicks (56,12) (d)  
President, Chief Executive Officer

McClellan Harris III (48,9) (d)  
Chief Financial Officer, Vice President-Finance,  
Treasurer and Corporate Secretary

Joel A. Dickson (47,9) (e)

Vice President-Business Development

Donald K. Sadoris (56,32) (f)  
Vice President-Customer Service, Region I

Joseph F. Young (54,22) (f)  
Vice President-Customer Service, Region II

James B. Gallagher (45,12) (f)  
Vice President-Customer Service, Region III

Denise L. Kruger (35,7) (f)  
Vice President-Water Quality

Susan L. Conway (38,11) (f)  
Vice President-Regulatory Affairs

(age, years of service)

- (a) Member - Compensation Committee
- (b) Member - Audit and Finance Committee
- (c) Member - Nominating and Governance Committee
- (d) Holds same title in American States Water Company, Southern California Water Company and American States Utility Services, Inc.
- (e) Holds same title in American States Water Company, American States Utility Services, Inc. and holds title of Vice President - Customer and Operations Support in Southern California Water Company
- (f) Officer of Southern California Water Company only

[photo of board of directors]

Back Cover

American States Water Company  
630 E. Foothill Boulevard, San Dimas, California 91773-1212  
(909) 394-3600  
[www.aswater.com](http://www.aswater.com)

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report, dated February 10, 2000 included in this Annual Report on Form 10-K into the following American States Water Company and Southern California Water Company registration statements:

Registration Form	Registration No.	Effective Date
S - 8	33-71226	November 4, 1993
S - 3	333-68201	December 16, 1998
S - 3	333-68299	December 22, 1998
S - 3	333-88979	October 26, 1999

It should be noted that we have performed no audit procedures subsequent to February 10, 2000, the date of our report, except with respect to Note 14 as to which the date is March 10, 2000. Furthermore, we have not audited any financial statements of the Company as of any date or for any period subsequent to December 31, 1999.

Los Angeles, California  
March 20, 2000

UT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEETS AND INCOME STATEMENTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS FILED HEREWITH.

0000092116  
SOUTHERN CALIFORNIA WATER COMPANY  
1,000

YEAR	DEC-31-1999	JAN-01-1999	DEC-31-1999
			PER-BOOK
	449,595		
	10,583		
	44,340		
	28,663		
		0	
		533,181	
		22,394	
	74,937		
	61,515		
158,846			
	400		
		1,600	
	167,076		
	21,000		
	0		
	0		
	175		
	40		
	587		
		125	
184,012			
533,181			
173,421			
	13,345		
131,562			
144,907			
28,514			
	532		
29,046			
	12,945		
		16,101	
	88		
16,013			
	11,466		
	0		
	39,010		
		1.79	
		1.79	