

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999

COMMISSION File No.	REGISTRANT AND STATE OF INCORPORATION Address and Telephone Number	IRS EMPLOYER Identification No.
333-47647	American States Water Company  (A California Corporation)  630 East Foothill Boulevard San Dimas, California 91773-9016  909-394-3600	95-4676679
000-01121	Southern California Water Company  (A California Corporation)  630 East Foothill Boulevard San Dimas, California 91773-9016  909-394-3600	95-1243678

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

American States Water Company Yes  No

Southern California Water Company Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of October 29, 1999, the number of Common Shares outstanding, No Par Value with Stated Value of \$2.50, of American States Water Company was 8,957,671, all of which are listed on the New York Stock Exchange.

As of October 29, 1999, all of the 100 outstanding Common Shares of Southern California Water Company are owned by American States Water Company.

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

## ITEM 1. FINANCIAL STATEMENTS

## General

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

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

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

## Filing Format

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS

ASSETS

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	-----	-----
	(Unaudited)	
	(in thousands)	
UTILITY PLANT, at cost		
Water .....	\$ 511,133	\$ 482,989
Electric .....	35,326	35,171
	-----	-----
	546,459	518,160
Less -- Accumulated depreciation .....	(148,500)	(138,423)
	-----	-----
	397,959	379,737
Construction work in progress .....	42,608	35,016
	-----	-----
	440,567	414,753
	-----	-----
OTHER PROPERTY AND INVESTMENTS .....	807	1,077
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents .....	3,479	620
Accounts receivable -		
Customers, less reserves of \$644		
in 1999 and \$403 in 1998 .....	10,921	7,626
Other .....	5,631	5,301
Unbilled revenue .....	13,124	9,303
Materials and supplies, at average cost .....	1,228	994
Supply cost balancing accounts .....	4,754	4,300
Prepayments and other .....	5,192	5,988
Accumulated deferred income taxes - net .....	5,689	5,156
	-----	-----
	50,018	39,288
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets .....	20,410	21,506
Other deferred charges .....	8,771	8,047
	-----	-----
	29,181	29,553
	-----	-----
	\$ 520,573	\$ 484,671
	=====	=====

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
CAPITALIZATION AND LIABILITIES

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	-----	-----
	(Unaudited)	
	(in thousands)	
<b>CAPITALIZATION</b>		
Common shareholders' equity .....	\$ 159,734	\$ 154,299
Preferred shares .....	1,600	1,600
Preferred shares subject to mandatory redemption requirements .....	400	400
Long-term debt .....	160,217	120,809
	-----	-----
	321,951	277,108
	-----	-----
<b>CURRENT LIABILITIES</b>		
Notes payable to banks .....	11,000	38,000
Long-term debt and preferred shares due within one year .....	510	260
Accounts payable .....	13,499	10,218
Taxes payable .....	9,157	5,900
Accrued interest .....	3,362	1,405
Other accrued liabilities .....	11,979	7,985
	-----	-----
	49,507	63,768
	-----	-----
<b>OTHER CREDITS</b>		
Advances for construction .....	56,650	54,743
Contributions in aid of construction .....	38,850	36,530
Accumulated deferred income taxes - net .....	48,141	46,902
Unamortized investment tax credits .....	3,087	3,155
Regulatory tax-related liability .....	1,873	1,906
Other .....	514	559
	-----	-----
	149,115	143,795
	-----	-----
	\$ 520,573	\$ 484,671
	=====	=====

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
FOR THE THREE MONTHS  
ENDED SEPTEMBER 30, 1999 AND 1998  
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
	(in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 48,357	\$ 43,813
Electric .....	3,240	3,189
	-----	-----
	51,597	47,002
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	12,628	11,104
Power purchased for pumping .....	2,127	2,280
Power purchased for resale .....	1,629	1,320
Groundwater production assessment .....	1,832	1,934
Supply cost balancing accounts .....	(332)	182
Other operating expenses .....	3,783	3,840
Administrative and general expenses .....	6,792	5,151
Depreciation .....	3,380	3,639
Maintenance .....	2,064	1,770
Taxes on income .....	5,705	4,740
Other taxes .....	1,723	1,610
	-----	-----
	41,331	37,570
	-----	-----
Operating income .....	10,266	9,432
OTHER INCOME/(LOSS) .....	150	(209)
	-----	-----
Income before interest charges .....	10,416	9,223
INTEREST CHARGES .....	3,726	2,849
	-----	-----
NET INCOME .....	6,690	6,374
DIVIDENDS ON PREFERRED SHARES .....	(22)	(23)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 6,668	\$ 6,351
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING....	8,958	8,958
	=====	=====
Basic Earnings Per Common Share .....	\$ 0.74	\$ 0.71
	=====	=====
Dividends Declared Per Common Share .....	\$ 0.320	\$ 0.315
	=====	=====

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
FOR THE NINE MONTHS  
ENDED SEPTEMBER 30, 1999 AND 1998  
(UNAUDITED)

	SEPTEMBER 30,	
	1999	1998
	(in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 119,914	\$ 102,127
Electric .....	9,931	9,831
	-----	-----
	129,845	111,958
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	26,946	24,529
Power purchased for pumping .....	5,140	4,904
Power purchased for resale .....	5,150	3,764
Groundwater production assessment .....	5,520	5,542
Supply cost balancing accounts .....	(453)	(1,055)
Other operating expenses .....	11,170	10,866
Administrative and general expenses .....	20,544	15,897
Depreciation .....	10,270	9,588
Maintenance .....	5,874	5,432
Taxes on income .....	11,395	8,484
Other taxes .....	4,918	4,607
	-----	-----
	106,474	92,558
	-----	-----
Operating income .....	23,371	19,400
OTHER INCOME .....	409	(78)
	-----	-----
Income before interest charges .....	23,780	19,322
INTEREST CHARGES .....	9,707	8,338
	-----	-----
NET INCOME .....	14,073	10,984
DIVIDENDS ON PREFERRED SHARES .....	(66)	(68)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 14,007	\$ 10,916
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ...	8,958	8,958
	=====	=====
Basic Earnings Per Common Share .....	\$ 1.56	\$ 1.22
	=====	=====
Dividends Declared Per Common Share .....	\$ 0.960	\$ 0.945
	=====	=====

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
FOR THE TWELVE MONTHS  
ENDED SEPTEMBER 30, 1999 AND 1998  
(UNAUDITED)

	TWELVE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
	(in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 152,645	\$ 135,138
Electric .....	13,301	13,325
	-----	-----
	165,946	148,463
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	33,251	31,949
Power purchased for pumping .....	7,245	7,006
Power purchased for resale .....	6,399	5,302
Groundwater production assessment .....	7,545	7,007
Supply cost balancing accounts .....	630	(1,083)
Other operating expenses .....	14,762	14,218
Administrative and general expenses .....	26,635	21,819
Depreciation .....	13,219	12,323
Maintenance .....	7,753	7,286
Taxes on income .....	13,041	11,098
Other taxes .....	6,436	6,175
	-----	-----
	136,916	123,100
	-----	-----
Operating income .....	29,030	25,363
OTHER INCOME .....	1,257	223
	-----	-----
Income before interest charges .....	30,287	25,586
INTEREST CHARGES .....	12,576	10,979
	-----	-----
NET INCOME .....	17,711	14,607
DIVIDENDS ON PREFERRED SHARES .....	(88)	(91)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 17,623	\$ 14,516
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ...	8,958	8,958
	=====	=====
Basic Earnings Per Common Share .....	\$ 1.97	\$ 1.62
	=====	=====
Dividends Declared Per Common Share .....	\$ 1.275	\$ 1.260
	=====	=====

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

AMERICAN STATES WATER COMPANY  
CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
	(in thousands)	
OPERATING REVENUES		
CASH FLOWS FROM -		
Operating Activities:		
Net income .....	\$ 14,073	\$ 10,985
Adjustments for non-cash items:		
Depreciation and amortization .....	10,667	9,926
Deferred income taxes and investment tax credits .....	1,701	3,447
Other - net .....	(2,308)	3,408
Changes in assets and liabilities:		
Accounts receivable .....	(3,295)	(1,958)
Prepayments .....	796	3,410
Supply cost balancing accounts .....	(454)	(1,098)
Accounts payable .....	3,281	109
Taxes payable .....	3,257	1,058
Unbilled revenue .....	(3,821)	(2,731)
Other .....	5,383	(376)
	-----	-----
Net Cash Provided .....	29,280	26,180
	-----	-----
Investing Activities:		
Construction expenditures .....	(32,646)	(30,386)
	-----	-----
Net Cash Used .....	(32,646)	(30,386)
	-----	-----
Financing Activities:		
Issuance of securities .....	39,968	15,000
Receipt of advances and contributions .....	3,564	2,831
Repayments of long-term debt, net of redemption of preferred shares .....	(309)	541
Refunds on advances .....	(1,333)	(2,536)
Repayments of notes payable to banks .....	(27,000)	(7,000)
Common and preferred dividends paid .....	(8,665)	(8,532)
	-----	-----
Net Cash Provided .....	6,225	304
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents .....	2,859	(3,902)
Cash and Cash Equivalents, Beginning of period .....	620	4,186
	-----	-----
Cash and Cash Equivalents, End of period .....	\$ 3,479	\$ 284
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED BALANCE SHEETS

ASSETS

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	-----	-----
	(Unaudited)	
	(in thousands)	
UTILITY PLANT, at cost		
Water .....	\$ 511,133	\$ 482,989
Electric .....	35,326	35,171
	-----	-----
	546,459	518,160
Less - Accumulated depreciation .....	(148,500)	(138,423)
	-----	-----
	397,959	379,737
Construction work in progress .....	42,608	35,016
	-----	-----
	440,567	414,753
	-----	-----
OTHER PROPERTY AND INVESTMENTS .....	786	763
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents .....	2,992	524
Accounts receivable -		
Customers, less reserves of \$644		
in 1999 and \$403 in 1998 .....	10,684	7,498
Other .....	7,697	5,376
Unbilled revenue .....	13,124	9,303
Materials and supplies, at average cost .....	1,228	994
Supply cost balancing accounts .....	4,754	4,300
Prepayments and other .....	5,192	5,988
Accumulated deferred income taxes - net .....	5,712	5,173
	-----	-----
	51,383	39,156
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets .....	20,410	21,506
Other deferred charges .....	8,651	7,997
	-----	-----
	29,061	29,503
	-----	-----
	\$ 521,797	\$ 484,175
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
CAPITALIZATION AND LIABILITIES

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	-----	-----
	(Unaudited)	
	(in thousands)	
<b>CAPITALIZATION</b>		
Common shareholders' equity .....	\$ 160,912	\$ 155,721
Long-term debt .....	160,217	120,809
	-----	-----
	321,129	276,530
	-----	-----
<b>CURRENT LIABILITIES</b>		
Notes payable to banks .....	11,000	38,000
Long-term debt and preferred shares due within one year .....	510	260
Accounts payable .....	15,292	10,054
Taxes payable .....	9,413	6,147
Accrued interest .....	3,362	1,405
Other accrued liabilities .....	11,976	7,984
	-----	-----
	51,553	63,850
	-----	-----
<b>OTHER CREDITS</b>		
Advances for construction .....	56,650	54,744
Contributions in aid of construction .....	38,850	36,530
Accumulated deferred income taxes - net .....	48,141	46,902
Unamortized investment tax credits .....	3,087	3,155
Regulatory tax-related liability .....	1,873	1,906
Other .....	514	558
	-----	-----
	149,115	143,795
	-----	-----
	\$ 521,797	\$ 484,175
	=====	=====

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

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE MONTHS  
ENDED SEPTEMBER 30, 1999 AND 1998  
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
	----- (\$ in thousands, except per share amounts) -----	
OPERATING REVENUES		
Water .....	\$ 48,250	\$ 43,797
Electric .....	3,240	3,189
	-----	-----
	51,490	46,986
	-----	-----
OPERATING EXPENSES		
Water purchased .....	12,628	11,104
Power purchased for pumping .....	2,127	2,280
Power purchased for resale .....	1,629	1,320
Groundwater production assessment .....	1,832	1,934
Supply cost balancing accounts .....	(332)	182
Other operating expenses .....	3,758	3,835
Administrative and general expenses .....	6,639	5,149
Depreciation .....	3,380	3,505
Maintenance .....	2,064	1,770
Taxes on income .....	5,728	4,787
Other taxes .....	1,723	1,610
	-----	-----
	41,176	37,476
	-----	-----
Operating income .....	10,314	9,510
OTHER INCOME/(LOSS) .....	149	(104)
	-----	-----
Income before interest charges .....	10,463	9,406
INTEREST CHARGES .....	3,725	2,849
	-----	-----
NET INCOME .....	6,738	6,557
DIVIDENDS ON PREFERRED SHARES .....	--	--
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 6,738	\$ 6,557
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ...	100	100
	=====	=====
Basic Earnings Per Common Share .....	\$ 67,380	\$ 65,570
	=====	=====
Dividends Declared Per Common Share .....	\$ 29,000	\$ 30,450
	=====	=====

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  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE NINE MONTHS  
ENDED SEPTEMBER 30, 1999 AND 1998  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
	(\$ in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 119,673	\$ 102,111
Electric .....	9,931	9,831
	-----	-----
	129,604	111,942
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	26,946	24,527
Power purchased for pumping .....	5,140	4,904
Power purchased for resale .....	5,150	3,764
Groundwater production assessment .....	5,520	5,542
Supply cost balancing accounts .....	(453)	(1,055)
Other operating expenses .....	11,122	10,861
Administrative and general expenses .....	20,235	15,897
Depreciation .....	10,136	9,454
Maintenance .....	5,872	5,432
Taxes on income .....	11,472	8,531
Other taxes .....	4,916	4,607
	-----	-----
	106,056	92,464
	-----	-----
Operating income .....	23,548	19,478
OTHER INCOME .....	385	27
	-----	-----
Income before interest charges .....	23,933	19,505
INTEREST CHARGES .....	9,707	8,338
	-----	-----
NET INCOME .....	14,226	11,167
DIVIDENDS ON PREFERRED SHARES .....	--	(46)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 14,226	\$ 11,121
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ...	100	100
	=====	=====
Basic Earnings Per Common Share .....	\$ 142,260	\$ 111,210
	=====	=====
Dividends Declared Per Common Share .....	\$ 90,400	\$ 86,883
	=====	=====

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  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE TWELVE MONTHS  
ENDED SEPTEMBER 30, 1999 AND 1998  
(UNAUDITED)

	TWELVE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
	(\$ in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 152,355	\$ 135,123
Electric .....	13,301	13,325
	-----	-----
	165,656	148,448
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	33,251	31,949
Power purchased for pumping .....	7,245	7,006
Power purchased for resale .....	6,399	5,302
Groundwater production assessment .....	7,545	7,007
Supply cost balancing accounts .....	630	(1,082)
Other operating expenses .....	14,694	14,214
Administrative and general expenses .....	26,224	21,817
Depreciation .....	12,952	12,189
Maintenance .....	7,750	7,286
Taxes on income .....	13,301	11,145
Other taxes .....	6,434	6,175
	-----	-----
	136,425	123,008
	-----	-----
Operating income .....	29,231	25,440
OTHER INCOME .....	1,589	328
	-----	-----
Income before interest charges .....	30,820	25,768
INTEREST CHARGES .....	12,576	10,979
	-----	-----
NET INCOME .....	18,244	14,789
DIVIDENDS ON PREFERRED SHARES .....	0	(69)
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 18,244	\$ 14,720
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ...	100	100
	=====	=====
Basic Earnings Per Common Share .....	\$ 182,440	\$ 147,200
	=====	=====
Dividends Declared Per Common Share .....	\$ 118,837	\$ 115,100
	=====	=====

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  
CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
----- (in thousands) -----		
CASH FLOWS FROM		
Operating Activities:		
Net income .....	\$ 14,226	\$ 11,167
Adjustments for non-cash items:		
Depreciation and amortization .....	10,533	9,926
Deferred income taxes and investment tax credits .....	1,696	3,444
Other - net .....	(2,563)	5,772
Changes in assets and liabilities:		
Accounts receivable .....	(3,186)	(1,906)
Prepayments .....	796	3,410
Supply cost balancing accounts .....	(454)	(1,098)
Accounts payable .....	5,238	(150)
Taxes payable .....	3,265	1,109
Unbilled revenue .....	(3,821)	(2,731)
Other .....	3,400	(265)
	-----	-----
Net Cash Provided .....	29,130	28,678
	-----	-----
Investing Activities:		
Construction expenditures .....	(32,511)	(30,851)
	-----	-----
Net Cash Used .....	(32,511)	(30,851)
	-----	-----
Financing Activities:		
Issuance of securities .....	39,968	15,000
Receipt of advances and contributions .....	3,564	2,831
Repayments of long-term debt, net of redemption of preferred shares .....	(310)	(1,499)
Refunds on advances .....	(1,333)	(2,536)
Repayments of notes payable to banks .....	(27,000)	(7,000)
Common and preferred dividends paid .....	(9,040)	(8,733)
	-----	-----
Net Cash Provided (Used) .....	5,849	(1,937)
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents .....	2,468	(4,110)
Cash and Cash Equivalents, Beginning of period .....	524	4,186
	-----	-----
Cash and Cash Equivalents, End of period .....	\$ 2,992	\$ 76
	=====	=====

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

AMERICAN STATES WATER COMPANY  
AND  
SOUTHERN CALIFORNIA WATER COMPANY

NOTES TO FINANCIAL STATEMENTS  
(UNAUDITED)

1. American States Water Company (AWR) was incorporated in 1998 in connection with the formation of a holding company by Southern California Water Company (SCW) and became a public company on July 1, 1998. AWR has no material assets other than the common stock of Southern California Water Company (SCW). SCW is a public utility company engaged principally in the purchase, production, distribution and sale of water, and the distribution and sale of electric energy in several mountain communities. Unless otherwise stated in this report, the term Registrant applies to both AWR and SCW, collectively.
2. For a summary of significant accounting policies and other information relating to these interim financial statements, reference is made to pages 24 through 31 of the 1998 Annual Report to Shareholders of AWR under the caption "Notes to Financial Statements."
3. Basic earnings per common share are calculated pursuant to SFAS No. 128 -- Earnings per Share -- and are based on the weighted average number of common shares outstanding during each period and net income after deducting preferred dividend requirements. Registrant has no dilutive securities outstanding and, accordingly, diluted earnings per share is not shown.
4. On April 22, 1999, the CPUC issued an order denying SCW's application seeking approval of its recovery through rates of approximately \$2.4 million in costs associated with its participation in the Coastal Aqueduct Extension of the State Water Project ("SWP"). SCW's investment in SWP is currently included in utility plant. SCW is investigating its options to recover its investment in SWP including contributions from developers on a per-lot or other basis or, failing that, sale of its 500 acre-foot entitlement in SWP. Management believes the value of the asset will ultimately be recovered. See the section entitled "Rates and Regulation" for more information.
5. SCW implemented increased water rates in six rate-making districts in January 1999. SCW has filed applications to increase rates in four water ratemaking districts, effective January 2000. See the section entitled "Rates and Regulation" for more information.
6. As permitted by the CPUC, SCW maintains water and electric supply cost balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Recovery or refund of such over/under collections are recorded in income when received from customers and charged to balancing accounts when such costs are incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments.

7. AWR currently has two principal business units: water service and electric distribution utility operations conducted through its SCW subsidiary, and non-regulated activities through its American States Utility Services, Incorporated (ASUS) subsidiary. All activities of Registrant currently are geographically located within the State of California, except for one contract 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. Registrant 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.

(dollars in thousands)

For The Three Months Ended September 30, 1999

	Water			Electric
	Region I	Region II	Region III	
	Operating revenues	\$8,401	\$19,910	
Operating income before income taxes	2,874	5,245	6,910	1,013
Identifiable assets	106,132	135,102	174,579	25,410
Depreciation expense	684	1,010	1,350	336
Capital additions	3,864	5,253	3,560	577

(dollars in thousands)

For The Three Months Ended September 30, 1998

	Water			Electric
	Region I	Region II	Region III	
	Operating revenues	\$8,439	\$17,066	
Operating income before income taxes	3,035	4,234	6,414	614
Identifiable assets	95,741	119,418	165,657	24,933
Depreciation expense	639	842	1,230	794
Capital additions	1,681	3,128	(868)	436

(dollars in thousands)

For The Nine Months Ended September 30, 1999

	Water			Electric
	Region I	Region II	Region III	
	Operating revenues	\$20,531	\$52,577	
Operating income before income taxes	5,200	13,015	13,494	3,311
Identifiable assets	106,132	135,102	174,579	25,410
Depreciation expense	2,052	3,030	4,046	1,008
Capital additions	9,574	15,710	9,961	1,535

(dollars in thousands)

For The Nine Months Ended September 30, 1998

	Water			Electric
	Region I	Region II	Region III	

Operating revenues	\$18,974	\$43,147	\$39,982	\$9,839
Operating income before income taxes	5,376	9,649	10,275	2,709
Identifiable assets	95,741	119,418	165,657	24,933
Depreciation expense	1,917	2,528	3,689	1,320
Capital additions	9,427	9,042	6,221	1,323
-----				

(dollars in thousands)

For The Twelve Months Ended September 30, 1999

	Water			Electric
	Region I	Region II	Region III	
	Operating revenues	\$26,484	\$66,703	
Operating income before income taxes	6,623	15,098	16,360	4,451
Identifiable assets	106,132	135,102	174,579	25,410
Depreciation expense	2,691	3,873	5,058	1,330
Capital additions	13,465	29,725	10,921	1,939

(dollars in thousands)

For The Twelve Months Ended September 30, 1998

	Water			Electric
	Region I	Region II	Region III	
	Operating revenues	\$24,604	\$58,319	
Operating income before income taxes	6,794	13,036	12,854	3,901
Identifiable assets	95,741	119,418	165,657	24,933
Depreciation expense	2,496	3,287	4,835	1,571
Capital additions	13,485	20,000	6,113	1,971

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

### FORWARD-LOOKING INFORMATION

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

### GENERAL

American States Water Company (AWR) was incorporated in 1998 in connection with the formation of a holding company by Southern California Water Company (SCW) and became a public company on July 1, 1998. AWR has no material assets other than the common stock of SCW. SCW is a public utility company engaged principally in the purchase, production, distribution and sale of water (SIC No. 4941). SCW also distributes electricity in one customer service area (SIC No. 4911). SCW is regulated by the California Public Utilities Commission (CPUC) and was incorporated on December 31, 1929 under the laws of the State of California. AWR has another subsidiary, American States Utility Services, Inc. (ASUS) which contracts to lease, operate and maintain governmentally owned water and wastewater systems and to provide other services to local governments to assist them in the operation and maintenance of their water and wastewater systems. 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 prior to May 1, 1999, and with Illinova Energy Partners since May 1, 1999.

SCW served 243,669 water customers and 21,039 electric customers at September 30, 1999, or a total of 264,708 customers, compared with 263,260 total customers at September 30, 1998.

SCW's utility operations exhibit seasonal trends. Although SCW's water utility operations have a diversified customer base, revenues derived from commercial and residential water customers accounted for approximately 86.4%, 88.5% and 90.7% of total water revenues for the three, nine and twelve months ended September 30, 1999, respectively as compared to 85.3%, 89.0% and 91.5% for the three, nine and twelve months ended September 30, 1998, respectively.

#### RESULTS OF OPERATION

Basic earnings per common share for the three months ended September 30, 1999 increased by 4.2% to \$0.74 per share as compared to \$0.71 per share for the comparable period last year. Basic earnings per common share for the nine months ended September 30, 1999 increased by 27.9% to \$1.56 per share as compared to \$1.22 per share for the comparable period last year. Basic earnings for the twelve months ended September 30, 1999 increased by 21.6% to \$1.97 per share as compared to \$1.62 per share for the twelve months ended September 30, 1998. The increase in the recorded results primarily reflects higher revenues during 1999 as is more fully discussed below.

As compared to last year, water sales volumes for the three, nine and twelve months ended September 30, 1999 increased by 0.3%, 9.3% and 6.6%, respectively, due primarily to the much drier and warmer weather conditions throughout Southern California this year. Water operating revenues for the three, nine and twelve months ended September 30, 1999 increased by 10.4%, 17.4%, and 13.0%, respectively, from the same periods ended September 30, 1998 due to the increase in water volumes sold and the general rate increases effective January 1, 1999. Registrant implemented new rates in six of its customer service areas in January 1999. See the section entitled "Rates and Regulation" for more information.

For the three months ended September 30, 1999, kilowatt-hour sales of electricity increased by 2.2% as compared to the same period ended September 30, 1998 and, as a result, electric operating revenues for the quarter ended September 30, 1999 increased by 1.6%. Kilowatt-hour sales increased by 3.2% and 2.8%, respectively, for the nine and twelve months ended September 30, 1999 as compared to last year due principally to lack of winter snows experienced in Registrant's service area during the first quarter of this year, which increased the use of snow making machines. Electric operating revenues for the nine and twelve month periods ending September 30, 1999 increased only by 1.0% and decreased slightly by 0.2%, respectively, over the comparable periods last year due to the fact that the increases in kilowatt-hour sales were contributed by industrial power users, billed at relatively lower rates.

Purchased water costs increased by 13.7% for the three months ended September 30, 1999 as compared to the same period ending in 1998 due to a 5.4% increase in volumes purchased, and reimbursements from potentially responsible parties related to contamination in SCW's Culver City CSA of approximately \$290,000 received during the three months ended September 30, 1998, there were no such reimbursements in the third quarter of 1999. For the nine months ended September 30, 1999, purchased water costs increased by 9.9% as compared to the same period last year, reflecting a 10.0% increase in volumes purchased. The nine-month comparison is also affected by higher reimbursements for well contamination as mentioned above in the period of 1998, offset by a refund of \$1.4 million received by SCW in April of 1999 from the Water Replenishment district of Southern California (WRD). As compared to the twelve months ended September 30, 1998, purchased water costs increased by only 4.1% due to an additional WRD refund of \$1.4 million received in December 1998. The twelve-month comparison is also affected by the mentioned reimbursements related to contamination of approximately \$2,429,000 received during the twelve months ended September 30, 1998 compared with reimbursements of \$859,000 received during the period ended September 30, 1999. See the section entitled "Environmental Matters Related to Culver City System."

Cost of power purchased for pumping decreased by 6.7% for the three months ended September 30, 1999 due to a 7.9% decrease in water pumped as compared to the same period of last year. Cost of power purchased for pump increased by 4.8% and 3.4%, respectively, for the nine and twelve months ended September 30, 1999 as compared to the same periods ended September 30, 1998 due to an increase in pumped groundwater in SCW's water supply mix resulting from the increased sales volumes.

As compared to the three, nine and twelve months ended September 30, 1998, the cost of power purchased for resale increased by 23.4%, 36.8% and 20.7%, respectively, for the three, nine and twelve months ended September 30, 1999 due primarily to additional accruals for energy demand charges from Registrant's energy supplier in 1999.

Groundwater production assessments are 5.3% lower for the three months ended September 30, 1999 due primarily to a decrease in pumped groundwater during the this quarter. For the twelve months ended September 30, 1999, groundwater production assessments increased by 7.7%, reflecting increased volumes of pumped water in SCW's total water supply and additional assessments particularly associated with increased pumping in SCW's Metropolitan, Orange County 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. Registrant currently has a net under-collection position. A net under-collection of balancing accounts for the three months ended September 30, 1999 reflects higher energy demand charges, and water right leases that were not fully covered in rates. Recovery of previously under-collected supply cost was higher for the nine and twelve months ended September 30, 1999 than the same periods of 1998 due to rates effective January 1999, authorized to implement new supply costs and to increase collection of these under-collected costs. The WRD refunds discussed previously helped to decrease previously under-collected supply costs.

Other operating expenses decreased slightly by 1.5% for the three months ended September 30, 1999 and increased by 2.8% and 3.8%, respectively, for the nine and twelve months ended September 30, 1999 as compared to the same periods ended September 30, 1998. The increases from the nine and twelve-month comparisons were due to increased costs for water treatment, and higher amounts accrued for uncollectible accounts as a result of increased revenues.

Administrative and general expenses increased by 31.9%, 29.2% and 22.1%, respectively, for the three, nine and twelve months ended September 30, 1999 as compared to the same periods ended September 30, 1998. This increase was due principally to an increase in costs associated with the terminated acquisition of Dominguez Services Corp., increased employee benefit costs, and additional amounts reserved for certain legal proceedings. See the section entitled "Legal Proceedings" for more information.

Depreciation expense increased by 7.1% and 7.3%, respectively, for the nine and twelve months ended September 30, 1999 reflecting, among other things, the effects of recording approximately \$38 million in net plant additions during 1998, depreciation on which began in January 1999. In addition, the final amortization of start-up and organizational costs associated with the formation of AWR was reflected in the twelve months ended September 30, 1999. There were no similar amortization costs for the twelve months ended September 30, 1998. As compared to the three months ended September 30, 1998, depreciation decreased by 7.1% due to a catch-up adjustment in the third quarter of 1998.

As compared to the three months ended September 30, 1998, maintenance expense increased by 16.6% during the third quarter of 1999 due to increased maintenance projects as anticipated in Registrant's second quarter Form 10-Q report. Maintenance expense increased by 8.1% and 6.4%, respectively, for the nine and twelve months ended September 30, 1999 as compared to the same periods ended September 30, 1998, reflecting the effects of the wet weather conditions experienced earlier in 1998 which hindered maintenance activities.

Taxes on income increased by 20.4%, 34.3% and 17.5% for the three, nine and twelve months ended September 30, 1999 as compared to the three and twelve months ended September 30, 1998 as a result of higher pre-tax income.

Other taxes increased by 7.0%, 6.8% and 4.2%, respectively, for the three, nine and twelve months ended September 30, 1999, respectively, as compared to the same periods last year reflecting increased franchise fee payments resulting from higher revenues, and increased property taxes due to higher property valuation assessments.

As compared to the same periods ended September 30, 1998, other income for the three and nine months ended September 30, 1999 increased due to reduced expenditures related to SCW's non-regulated joint-venture which was terminated in December 1998, and higher revenues in the period of 1999 from Registrant's water right lease. As compared to the twelve months ended September 30, 1998, other income increased by 463.7% in the comparable period ended September 30, 1999 due principally to the flow-through of tax benefits related to refinancing of long-term debt, partially offset by costs incurred in December 1998 associated with termination of the non-regulated joint venture agreement.

Interest expense increased by 30.8%, 16.4% and 14.5% for the three, nine and twelve months ended September 30, 1999 as compared to the three, nine and twelve months ended September 30, 1998, respectively. The increases were due to \$40 million in additional long-term debt issued in January, 1999 and interest charges recorded in the third quarter of 1999 related to the State Water Project, partially offset by the retirement of \$10 million of 10.10% note in December, 1998. The nine-month and twelve-month comparisons were also affected by 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. As of September 30, 1999, no securities had been issued under this Registration Statement.

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.

SCW issued \$40 million in long-term debt in January 1999 under a Registration Statement filed with the SEC. The funds were used to reduce short-term bank borrowings. The aggregate short-term borrowing capacity available to SCW under its three bank lines of credit was \$47 million as of September 30, 1999. As of that date, Registrant had a total of \$11 million in borrowing outstanding

under those bank lines of credit. Because of the seasonal nature of its water and electric operations, SCW utilizes its short-term borrowing capacity to finance current operating expenses.

SCW's construction program is designed to ensure its customers high quality service. SCW maintains an ongoing distribution main replacement program throughout its customer service areas, based on the priority of leaks detected, fire protection enhancement and a reflection of the underlying replacement schedule. In addition, SCW upgrades its electric and water supply facilities in accordance with industry standards, local requirements and CPUC requirements. SCW's Board of Directors has approved anticipated net capital expenditures of approximately \$49.1 million for 1999 and \$55.7 million for 2000. Of the amount authorized for 1999, \$29.6 million has incurred as of September 30, 1999. Neither AWR nor ASUS have any material capital expenditures.

#### WATER SUPPLY

For the three months ended September 30, 1999, SCW supplied a total of 26,826,000 ccf of water as compared to 26,730,000 ccf for the three months ended September 30, 1998. Of the total 26,826,000 ccf of water supplied during the third quarter of 1999, approximately 54.6% came from pumped sources and 42.3% was purchased from others, principally the Metropolitan Water District of Southern California (MWD) and its member agencies. The remaining 3.1% of total supply came from the United States Bureau of Reclamation (the "Bureau") under a no-cost contract. For the three months ended September 30, 1998, 60.0%, 39.0% and 1.0% was supplied from pumped sources, purchased from MWD and the Bureau, respectively.

For the nine months ended September 30, 1999, SCW supplied a total of 64,116,000 ccf of water, 58.4% of which came from pumped sources, 39.7% was purchased and the remaining amount was supplied by the Bureau. During the nine months ended September 30, 1998, SCW produced 59,365,000 ccf of water. Of this amount 61.0% came from pumped sources, 39.0% was purchased and the remainder was provided by the Bureau.

During the twelve months ended September 30, 1999, SCW supplied 83,128,000 ccf of water as compared to 78,068,000 ccf supplied during the twelve months ended September 30, 1998. During the twelve month period ended September 30, 1999, pumped sources provided 59.0% of total supply, 39.6% was purchased from MWD and the remaining 1.4% was supplied by the Bureau. For the twelve months ended September 30, 1998, 60.0%, 39.0% and 1.0%, respectively, was supplied from pumped sources, purchased from MWD and the Bureau.

The MWD is a water district organized under the laws of the State of California for the purpose of delivering imported water to areas within its jurisdiction. SCW 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 continue to remain adequate through 1999. 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 the State of Arizona. In response, MWD has taken a number of steps to construct additional storage capacity and increase available water supplies, including effecting transfers of water rights from other sources.

The water supply outlook remains favorable for most areas of the State. Water year forecasts made by the California Department of Water Resources (DWR) are about 110 percent of average statewide ranging from 130 percent in the North Coast region to 65 percent in the southern Sierra.

California's northern reservoirs remain near full capacity. Seasonal precipitation is nearly average overall with above average amounts in the northern parts of the State and less in the south. In those customer services areas of SCW which pump groundwater, overall groundwater conditions and supplies remain at adequate levels.

#### 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 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 February 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 will be subject to new regulations regarding radon and arsenic. EPA must propose an arsenic rule by January 1, 2000 and adopt a rule one year later. The EPA originally had 180 days after enactment of the 1996 SDWA amendments to develop a plan to study ways to reduce arsenic health risk uncertainties and was authorized to enter into cooperative agreements to carry out the study. It is anticipated that the completed study will be available for review in 1999. Depending on the MCL eventually established for arsenic, compliance could cause 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 nitrosodimethylemine (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 as well as reimburse 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. The agreement would require initial payment of approximately \$950,000 for costs associated with certain water supply facilities. The remainder of the costs is subject to further reimbursement, including interest, over no more than a fifteen month period. Assuming the negotiations are

consummated favorably to SCW, the reimbursement from Aerojet-General Corp. reduces SCW's utility plant and costs of purchased water. SCW remains vigilant in its efforts to assure a safe water supply is available to customers in its Arden-Cordova system from the local groundwater basin, although no assurance can be given that current or future negotiations will successfully address this objective.

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 Ranch Cordova customer service area. In a separate case, also filed on October 25, 1999, SCW sued Aerojet General Corp. for causing the contamination. The inverse condemnation suit was filed after the CRWQCB and Aerojet General Corp. rejected SCW's urgent calls to action to protect the customers and water supply of SCW. 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 as well as 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 customer service area. SCW has, however, taken other measures, including some measures that will be enacted on an emergency basis, to meet load growth in order mitigate delays in approval of the EIR.

## RATES AND REGULATION

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 directly regulated by the CPUC. The CPUC does, however, regulate certain transactions between SCW and its unregulated affiliates.

The 22 customer service areas 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'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 projected expenses and capital costs. GRC's have a typical regulatory lag of one year. Offset rate increases typically have a two to four month regulatory lag.

New water rates were implemented in three of SCW's customer service areas in January 1, 1998 to recover costs associated with capital projects in those areas. Step increases in rates were effective in April 1998 in Barstow and in May 1998 in Santa Maria. Increased rates for six additional water ratemaking districts and recovery of costs associated with SCW's general office functions were effective January 1, 1999. Step increases in rates for Arden-Cordova, Bay Point and Los Osos were also effective in January, 1999.

Applications to increase water rates were filed for four water ratemaking districts 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 CPUC Staff. A final decision from the CPUC is anticipated in the fourth quarter of 1999 although it is not anticipated that new rates, if authorized in total or in part by the CPUC, would be effective prior to January 1, 2000.

SCW has 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 is anticipated by the fourth quarter of 1999.

In January 1998, the CPUC authorized a memorandum account for legal expenses associated with SCW's involvement in water quality related lawsuits in its San Gabriel Valley customer service area. In March 1998, the CPUC authorized similar memorandum accounts for SCW's Arden-Cordova and Simi Valley customer service areas. Moreover, and partially in response to the lawsuits, the CPUC has initiated an Order Instituting Investigation (OII) into whether its 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 water utilities, including SCW, under its jurisdiction. See the section entitled "Legal Proceedings" for more information.

The CPUC also has two active Orders Instituting Rulemaking (OIR) -- one to provide guidelines for acquisition and mergers of water companies; the other to provide guidelines for the privatization and use of excess capacity as it relates to regulated water companies. The administrative law judge assigned to the OIR on privatization and excess capacity has issued a proposed order in that

proceeding. SCW is reviewing the proposed decision but believes that it does not adequately reflect the record. As such, SCW has provided comments on the proposed decision. SCW is unable to predict the outcome of the CPUC's final order in either of the OIR's.

On April 22, 1999, the CPUC issued an order denying SCW's application seeking approval of its recovery through rates of approximately \$2.4 million in costs associated with its participation in the Coastal Aqueduct Extension of the State Water Project ("SWP"). SCW's investment in SWP is currently included in utility plant. SCW is investigating its options to recover its investment in SWP including contributions from developers on a per-lot or other basis or, failing that, sale of its 500 acre-foot entitlement in SWP. SCW believes that its full investment and on-going costs associated with its ownership will be fully recovered. See the "Notes to Financial Statements" for more information.

#### YEAR 2000 ISSUE

Registrant continues to evaluate its exposure to the Year 2000 (Y2K) problem that arises from the fact that many existing computer systems may contain date sensitive embedded technology that uses only two digits to identify a year in the date field. Based on the assumption that the first two digits of the date field are always "19", such systems may misinterpret dates after December 31, 1999. Because Registrant is dependent upon the proper functioning of these computer systems and other equipment containing date sensitive technology, a failure of these systems could have a material and adverse affect on Registrant resulting in business interruption or shutdown, financial loss, regulatory citations and legal liability.

Registrant has been actively assessing its Y2K readiness since early 1997 and has inventoried its significant computer hardware and software programs. Since Registrant is dependent upon its management information and customer service systems, upgrades to these systems have been a priority. Registrant has, since 1995, been in the process of replacing and/or upgrading as necessary its core business information and operating systems with newer technologies, all of which are intended to be Y2K ready. All major upgrades to these systems are completed and were operational at year-end 1998. Costs associated with the implementation and upgrade of major management information and customer service software systems, as well as upgrades to mainframe hardware systems, have been approved by the CPUC and are being recovered through rates.

In addition to work being done on its internal systems, Registrant has sought compliance certification from external vendors and service providers. Testing on Registrant's interface with financial and other institutions with which it does business is being conducted to ensure Y2K readiness. In order to more fully address Y2K readiness of its field equipment, major vendors and service providers, Registrant engaged the services of a nationally-recognized business consulting firm and has completed its written plan to address the Y2K issue. Registrant has established a Year 2000 Task Force consisting of senior management and operating personnel which will complete the inventory of computer systems and other devices with embedded technology, as well as other considerations potentially not revealed in preliminary internal analyses.

Registrant's general process for addressing the Y2K issue is (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. Some, less critical systems may not be fully Y2K ready, but are not anticipated to materially affect Registrant's operations. Registrant believes that, as of September 30, 1999, all mission critical inventory items are Y2K ready for the date change from the year 1999 to 2000.

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 has 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 is preparing its contingency plan which will likely include, 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. Registrant exercised the first of several "dry runs" on August 26, 1999 which simulated a Y2K situation that implemented Registrant's contingency plan. The dry run proved to be an effective exercise that identified areas of strength and weakness, and provided real-life experience from which to make informed decisions about future dry runs and Y2K preparation.

Registrant does not have, and may never fully have, sufficient information about the Y2K exposure or remediation plans of these third parties to adequately predict the risks posed by them to Registrant. If the third parties have 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. To date, Registrant has incurred \$470,000 incurred in costs associated with Y2K readiness that are not in rates and estimates that an additional \$5,700,000 in capital expenditure will be incurred prior to December 1999. Registrant believes that these costs as well as future Y2K-related investments which are prudently incurred, will be recovered through rates.

The CPUC has notified all utilities under its jurisdiction, including SCW, that it will review their Y2K preparations. SCW has submitted its Y2K contingency plan to the CPUC in accordance with its direction. On September 30, 1999, SCW announced that it was Y2K compliant.

#### RISK FACTOR SUMMARY

This section (written in plain English) 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, in an historic ruling governing the oversight of water quality in California, the First District Court of Appeal in San Francisco has held that the CPUC has pre-emptive jurisdiction over regulated public utilities and ordered dismissal of a series of lawsuits against water utilities, including seven of the mentioned lawsuits against SCW. The plaintiffs subsequently appealed to the California Supreme Court on October 11, 1999. The Supreme Court has 60 days to accept or reject the petition. Management can not predict whether the plaintiffs will be successful in the appeal or whether the Supreme Court will accept or reject their appeal.

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

We anticipate that the CPUC will issue a decision in the OII by end of this year. The CPUC has authorized a memorandum account for legal expenses incurred by water utilities, including SCW, in the water quality lawsuits. Under the memorandum account procedure, SCW may recover litigation costs from ratepayers to the extent authorized by the CPUC. The CPUC has not yet authorized SCW to recover any of its litigation costs. As of September 30, 1999, Registrant had incurred \$850,600 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 four of its 16 rate-making jurisdictions; a final decision is not expected until near year-end 1999 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 above factors and may affect us in several ways:

- they adversely affect supply mix by causing the Company 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. The Company 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 completing negotiations 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 potentially responsible

parties on matters relating to the clean-up and purchase of replacement water in the Charnock Basin located in the cities of Santa Monica and Culver City. 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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

## PART II

### ITEM 1. LEGAL PROCEEDINGS

SCW is a defendant in eleven lawsuits involving several 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, Santamaria, Anderson, Dominguez, Celi, Boswell, and Demciuc Matters. On October 11, 1999, one group of plaintiffs have appealed to the California Supreme Court. The Supreme Court has 60 days to either accept or reject the petition. Management can not predict whether or not the Supreme Court will accept the plaintiff's petition or 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.*, 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"). Plaintiff's 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.*, filed on July 22, 1999 in Los Angeles Superior Court which seeks recovery for wrongful death, battery and fraudulent concealment (the "Adejare Matter"). Plaintiff's 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 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 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 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. 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. Plaintiff's 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 plaintiff claims in these matters, the lack of factual information regarding plaintiff's 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 intends to vigorously defend against these claims.

#### ORDER INSTITUTING INVESTIGATION

In March 1998, the CPUC issued an Order Instituting Investigation (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 safe 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 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 regulation in matters related to water quality over those water utilities subject to its authority. A final decision in the OII is anticipated by the end of 1999. SCW is unable to predict what the final order will find or what, if any, additional hearings or investigations may be required as a result of finding in the OII.

#### 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 2. CHANGES IN SECURITIES

As of September 30, 1999, earned surplus amounted to \$62,403,000, none of which was restricted as to payment of cash dividends on Registrant's Common Shares by any terms of Registrant's debt instruments.

As of September 30, 1999, authorized but unissued Common Shares includes 89,226 and 71,408 Common Shares reserved for issuance under Registrant's Dividend Reinvestment and Common Share Purchase Program and Investment Incentive Program (401-k), respectively. Common Shares reserved for the 401-k Plan are in relation to the matching contributions by SCW and for investment purposes by participants.

On October 21, 1999, Registrant filed with the SEC to increase, to 500,000, the number of authorized but unissued Common Shares reserved for issuance under the Common Share Purchase and Dividend Reinvestment Plan. Issuance of common shares under this program is effective November 1, 1999.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

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

#### ITEM 5. OTHER INFORMATION

On October 25, 1999, the Board of Directors of Registrant declared a regular quarterly dividend of \$0.32 per common share. The dividend will be paid December 1, 1999 to shareholders of record as of the close of business on November 8, 1999. In other actions, the Board of Directors declared regular quarterly dividends of \$0.25 per share, \$0.265625 per share and \$0.3125 per share on its 4%, 4-1/4% and 5% Cumulative Preferred Shares, respectively.

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

None.

SIGNATURES

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

AMERICAN STATES WATER COMPANY  
and its subsidiary

SOUTHERN CALIFORNIA WATER COMPANY

By: /s/ McClellan Harris III.

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

By: /s/ Linda J. Matlick.

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Linda J. Matlick  
Controller  
Southern California Water Company

Dated: October 29, 1999

UT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEETS AND INCOME STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS FILED HEREWITH.

0000092116  
SOUTHERN CALIFORNIA WATER COMPANY  
1,000

9-MOS	DEC-31-1999	JAN-01-1999	SEP-30-1999	PER-BOOK
	440,567	807	50,018	29,181
			0	520,573
	74,937	62,403		22,394
159,734		400		1,600
		160,217		
		11,000		
	160,081			
	0			
	94			
		40		
	606			
			376	
	0			
520,573				
	129,845			
		11,395		
	95,079			
106,474				
	23,371			
		409		
23,780				
	9,707			
			14,073	
	66			
14,007				
	8,599			
	0			
	29,280			
			1.56	
			1.56	