
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

**Current Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934**

Date of Report (date of earliest event reported): **February 28, 2019**

CALIFORNIA WATER SERVICE GROUP

(Exact name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction
of incorporation)

1-13883
(Commission file number)

77-0448994
(I.R.S. Employer
Identification Number)

1720 North First Street
San Jose, California
(Address of principal executive offices)

95112
(Zip Code)

(408) 367-8200
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition

On February 28, 2019, California Water Service Group (the “Company”) issued a press release (a copy of which is attached hereto as Exhibit 99.1 and incorporated herein by reference) announcing its financial results for the fourth quarter and year-end of 2018, ended December 31, 2018. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

As announced, the Company will host a conference call and webcast on Thursday, February 28, 2019 at 11:00 am EST to discuss financial results and management’s business outlook. The financial results announcement contains information about how to access the conference call. A slide presentation, which includes supplemental information relating to the Company, will be used by management during the conference call. A copy of the slide presentation is attached hereto as Exhibit 99.2 and is incorporated by reference herein. The Exhibits will be posted on the Company’s website at www.calwatergroup.com under the “Investor Relations” tab.

The information furnished pursuant to Item 2.02 of this Current Report shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 7.01. Regulation FD Disclosure.

The information included in the Exhibits to this report is incorporated by reference in response to this Item 7.01.

The information furnished pursuant to Item 7.01 of this Current Report shall not be deemed “filed” for the purposes of Section 18 of the Exchange Act, or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits.

We hereby furnish the following exhibits, which shall not be deemed “filed” for the purposes of Section 18 of the Exchange Act, with this report:

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release issued February 28, 2019
99.2	Slide presentation relating to conference call

SIGNATURES

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

CALIFORNIA WATER SERVICE GROUP

Date: February 28, 2019

By: /s/ Thomas F. Smegal
Name: Thomas F. Smegal
Title: Vice President, Chief Financial Officer & Treasurer



NEWS RELEASE
CALIFORNIA WATER SERVICE GROUP



1720 North First Street
San Jose, CA 95112-4598

February 28, 2019
for immediate release

Contact: Tom Smegal (408) 367-8200 (analysts)
Shannon Dean (310) 257-1435 (media)

**CALIFORNIA WATER SERVICE GROUP ANNOUNCES
2018 EARNINGS FOR YEAR AND FOURTH QUARTER**

SAN JOSE, CA — California Water Service Group (Company) (NYSE: CWT) today announced net income of \$65.6 million and diluted earnings per share of \$1.36 for 2018, compared to net income of \$72.9 million and diluted earnings per share of \$1.52 in 2017. The 2017 as reported net income was increased for an immaterial error that understated operating revenue.

The \$7.3 million decrease in net income was driven primarily by a \$6.9 million reduction in revenue due to the cost of capital decision for California Water Service (Cal Water) and a \$5.0 million increase in new business development expenses. In addition, increases in depreciation and amortization, labor, maintenance, property tax, and interest expenses were partially offset by rate increases, a California Public Utilities Commission (CPUC) authorization to recover \$3.3 million of 2016 and 2017 incremental drought program costs, and a decrease in income taxes.

Also, there were other changes outside the Company's immediate control that decreased net income, including a \$5.4 million reduction in unrealized income from certain benefit plan investments due to market conditions, a \$0.9 million reduction in unbilled revenue accrual, and a \$0.7 million decrease in gain on sale of property that was partially offset by a \$1.1 million benefit from Company-owned life insurance.

President and Chief Executive Officer Martin A. Kropelnicki said he was pleased with the results.

“In addition to executing our infrastructure investment program, which improves quality, safety, and reliability for our customers, we tightly managed expenses to budget, and increased our dividend by five percent—the 52nd annual dividend increase,” he said.

“Beyond our financial results, we focused on delivering quality, service, and value to our customers and communities. We responded to the devastating Mendocino Complex, Woolsey, and Camp Fires; we completed 36 treatment facilities in a 22 month period to meet the new California standard for 1,2,3-trichloropropane (TCP); and we worked side-by-side with community leaders and customers as our Palos Verdes Peninsula Water Reliability Project—the largest water system improvement in our Company’s history—got underway. These are just a few highlights of our performance in 2018,” Kropelnicki said.

The Company invested \$271.7 million in infrastructure, including \$22.1 million on TCP treatment.

Additional Financial Results for 2018

Total revenue increased 3.3% to \$698.2 million in 2018 compared to \$676.1 million in 2017, primarily due to rate increases. Rate increases added \$26.1 million, \$5.8 million of which was related to increased water costs. These factors were partially offset by a \$10.7 million reduction in rates due to a decrease in the federal income tax rate, a \$6.9 million reduction in rates due to the Cal Water cost of capital decision, and a \$0.9 million decrease in accrued unbilled revenue.

Total operating expenses increased \$18.6 million, or 3.3%, to \$587.7 million in 2018 compared to the prior year.

Water production expenses increased \$11.0 million, or 4.5%, to \$252.8 million in 2018, primarily due to increases in purchased water quantities and higher wholesale water rates. As designed, the California revenue decoupling mechanisms record an increase to revenue equal to the increase in California water production costs.

Administrative and general and other operations expenses increased \$12.9 million to \$180.6 million in 2018, primarily due to increases in costs associated with the deferral of operating revenue and employee wages and benefits, retiree medical, consulting, and outside service cost increases. These cost increases were partially offset by CPUC authorization to recover \$3.3 million of 2016 and 2017 incremental drought program costs. Changes in employee pension benefits and employee and retiree medical costs for regulated California operations generally do not affect earnings, as the Company is allowed by the CPUC to record these costs in balancing accounts for future recovery, creating a corresponding change to revenue.

Maintenance expenses increased \$2.0 million, or 8.7%, to \$24.5 million in 2018, due to increased costs for repairs of transmission and distribution mains and services.

Income taxes decreased \$16.7 million, or 47.3%, to \$18.6 million in 2018, due to a decrease in pre-tax income, a decrease in the federal income tax rate from 35 percent to 21 percent beginning on January 1, 2018, and an increase in the tax benefit from the flow through method of accounting for "repairs" deductions on state corporate income tax filings.

The net loss on other income and expenses increased \$6.9 million in 2018, due primarily to a \$5.0 million increase in new business development expenses and a \$5.4 million reduction in unrealized income from certain benefit plan investments due to market conditions.

Fourth Quarter 2018 Results

For the fourth quarter of 2018, net income was \$15.4 million and diluted earnings per share of \$0.32, compared to net income of \$15.1 million and diluted earnings per share of \$0.31 in the fourth quarter of 2017. The \$0.3 million increase in net income resulted primarily from a CPUC authorization to recover \$3.3 million of 2016 and 2017 incremental drought program costs, rate increases, and a \$1.8 million increase in unbilled revenue accrual. These factors were partially offset by increases in depreciation and amortization, labor, maintenance, property tax, and interest expenses and a \$3.4 million reduction in unrealized income from certain benefit plan investments due to market conditions. The 2017 fourth quarter as reported net income was increased for an immaterial error that understated operating revenue.

Revenue for the fourth quarter increased \$3.1 million, or 1.9%, to \$167.4 million mostly due to rate increases of \$6.2 million, of which \$1.5 million related to increased water costs, and a \$1.8 million increase in accrued unbilled revenue. These factors were partially offset by a \$4.3 million reduction in revenue due to rate decreases reflecting a lower cost of capital and lower federal income tax rate.

Total operating expenses for the quarter decreased \$0.3 million to \$140.9 million. Water production expenses increased \$0.6 million mostly due to increases in purchased water quantities and wholesale water rates. Administrative and general and other operations expenses decreased \$2.1 million, or 4.6%, to \$43.1 million mostly due to recovery of incremental droughts costs of \$3.2 million for the years 2016 and 2017 and decreases in conservation program costs and uninsured losses. Maintenance expense increased \$1.2 million, or 21.1%, to \$6.9 million. Other income and

expenses, net of income taxes, decreased \$2.8 million to a net loss of \$2.2 million mostly due to a \$3.4 million reduction in unrealized income from certain benefit plan investments due to market conditions. Net interest expense increased \$0.4 million, or 4.5%, to \$9.0 million.

The under-collected net receivable balance in the Water Rate Adjustment Mechanism and Modified Cost Balancing Account (WRAM and MCBA) balancing accounts were \$56.1 million as of December 31, 2018, a decrease of 18.8%, or \$13.0 million, from the balance of \$69.1 million as of December 31, 2017. Cal Water has a Sales Reconciliation Mechanism (SRM) in place for the second and third years of a general rate case (GRC) that allows the Company to adjust its adopted sales forecast if actual sales vary from adopted sales by more than 5.0% in the prior year.

Regulatory Update

As a part of the 2015 GRC decision, Cal Water was authorized to request annual escalation rate increases for 2019 for those districts that passed the earnings test. In November of 2018, Cal Water requested escalation rate increases in all of its regulated districts. The annual adopted gross revenue associated with the November 2018 filing was \$16.2 million. The new rates became effective on January 1, 2019.

In March of 2018, Cal Water submitted an advice letter to request recovery of 2016 and 2017 incremental drought expenses of \$3.3 million. On January 10, 2019, the CPUC approved Cal Water's request for recovery of the \$3.3 million of incremental expenses; subsequently, Cal Water submitted an advice letter on January 15, 2019 to implement a surcharge to recover the incremental expenses from customers. The new rates are expected to become effective on April 15, 2019.

On December 13, 2018, the CPUC approved Cal Water owning and operating the Travis Air Force Base (TAFB) water system as a regulated water utility district. The decision enables Cal Water to acquire the water distribution assets of TAFB from the U.S. Department of Defense and begin providing water utility service in July 2019 to the base for a term of 50 years. The CPUC will regulate water rates, rules, and tariffs for the system.

In December of 2017, Hawaii Water Service filed GRC applications requesting additional annual revenues for its Waikoloa Village and Waikoloa Resort systems with the Hawaii Public Utilities Commission (HPUC). On January 1, 2019, the HPUC authorized Waikoloa Village rate increases of \$0.8 million in 2019 and \$0.1 million in 2020. On January 7, 2019, the HPUC authorized Waikoloa Resort rate increases of \$0.8 million in 2019, \$0.8 million in 2020, and \$0.1 million in 2021.

On July 2, 2018, Washington Water Service submitted a GRC application to the Washington Utilities and Transportation Commission (UTC) to increase revenues to cover the higher costs of providing a reliable, high-quality water supply. The UTC authorized a rate increase of \$1.1 million on November 30, 2018 and the new rates became effective on December 1, 2018.

On December 22, 2017, the CPUC sent a letter to all Class A and B water and sewer utilities, which include Cal Water, on the subject of “Changes in Federal Tax Rates for 2018.” The CPUC required Cal Water to establish a Tax Accounting Memorandum Account (TAMA) to track the impact of the changes to federal tax law. The TAMA tracks the revenue requirement impact of the changes to federal tax law not otherwise reflected in rates from January 1, 2018 until the effective date of the revenue requirement changes adopted in Cal Water’s next GRC. The Company continues to work through the regulatory process in its other subsidiaries.

Other Information

All stockholders and interested investors are invited to listen to the 2018 year-end and fourth quarter conference call on February 28, 2019 at 8:00 a.m. PT (11:00 a.m. ET) by dialing 1-833-832-5130 or 1-509-844-0151 and keying in ID #9791277. A replay of the call will be available from 1:00 p.m. PT (4:00 p.m. ET) on February 28, 2019 through April 30, 2019, at 1-855-859-2056 or 1-404-537-3406, ID #9791277. The replay will also be available under the investor relations tab at www.calwatergroup.com. Prior to the call, Cal Water will post a slide presentation on its website. The presentation can be found at www.calwatergroup.com/docs/2018slides.pdf after 6:00 a.m. PT. The call will be hosted by President and Chief Executive Officer Martin A. Kropelnicki, Vice President and Chief Financial Officer Thomas F. Smegal III, Vice President, Corporate Development and Chief Regulatory Officer Paul G. Townsley, and Vice President and Corporate Controller David B. Healey.

California Water Service Group is the parent company of California Water Service, Washington Water Service, New Mexico Water Service, Hawaii Water Service, CWS Utility Services, and HWS Utility Services. Together, these companies provide regulated and non-regulated water service to nearly 2 million people in California, Washington, New Mexico, and Hawaii. California Water Service Group's common stock trades on the New York Stock Exchange under the symbol "CWT." Additional information is available online at www.calwatergroup.com.

This news release contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 ("Act"). The forward-looking statements are intended to qualify under provisions of the federal securities laws for "safe harbor" treatment established by the Act. Forward-looking statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the Company, the water utility industry and general economic conditions. Such words as would, expects, intends, plans, believes, estimates, assumes, anticipates, projects, predicts, forecasts or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are subject to uncertainty and changes in circumstances. Actual results may vary materially from what is contained in a forward-looking statement. Factors that may cause a result different than expected or anticipated include, but are not limited to: governmental and regulatory commissions' decisions; consequences of

eminent domain actions relating to our water systems; changes in regulatory commissions' policies and procedures; the timeliness of regulatory commissions' actions concerning rate relief and other actions; inability to renew leases to operate city water systems on beneficial terms; changes in California State Water Resources Control Board water quality requirements; changes in environmental compliance and water quality requirements; electric power interruptions; housing and customer growth index; the impact of opposition to rate increases; our ability to recover costs; availability of water supplies; issues with the implementation, maintenance or security of our information technology systems; civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type; the adequacy of our efforts to mitigate physical and cyber security risks and threats; the ability of our enterprise risk management framework to identify or address risks adequately; labor relations matters as we negotiate with the unions; restrictive covenants in or changes to the credit ratings on current or future debt that could increase financing costs or affect the ability to borrow, make payments on debt, or pay dividends; changes in customer water use patterns and the effects of conservation; the impact of weather, climate, natural disasters, and diseases on water quality, water availability, water sales and operating results, and the adequacy of our emergency preparedness; and, other risks and unforeseen events. When considering forward-looking statements, you should keep in mind the cautionary statements included in this paragraph, as well as the annual 10-K, Quarterly 10-Q, and other reports filed from time-to-time with the Securities and Exchange Commission (SEC). The Company assumes no obligation to provide public updates of forward-looking statements.

##

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited

(In thousands, except per share data)	December 31 2018	December 31 2017
ASSETS		
Utility plant:		
Utility plant	\$ 3,229,446	\$ 2,970,179
Less accumulated depreciation and amortization	(996,723)	(922,214)
Net utility plant	<u>2,232,723</u>	<u>2,047,965</u>
Current assets:		
Cash and cash equivalents	47,176	94,776
Receivables:		
Customers	30,037	32,451
Regulatory balancing accounts	42,394	36,783
Other	17,101	16,464
Unbilled revenue	33,427	29,756
Materials and supplies at weighted average cost	6,586	6,463
Taxes, prepaid expenses, and other assets	11,981	11,180
Total current assets	<u>188,702</u>	<u>227,873</u>
Other assets:		
Regulatory assets (*)	353,569	405,482
Goodwill	2,615	2,615
Other	60,095	60,775
Total other assets	<u>416,279</u>	<u>468,872</u>
TOTAL ASSETS	<u>\$ 2,837,704</u>	<u>\$ 2,744,710</u>
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$.01 par value; 68,000 shares authorized, 48,065 and 48,012 outstanding in 2018 and 2017, respectively	\$ 481	\$ 480
Additional paid-in capital	337,623	336,229
Retained earnings (*)	<u>392,053</u>	<u>362,512</u>
Total common stockholders' equity	730,157	699,221
Long-term debt, less current maturities	<u>710,027</u>	<u>515,793</u>
Total capitalization	<u>1,440,184</u>	<u>1,215,014</u>
Current liabilities:		
Current maturities of long-term debt	104,911	15,920
Short-term borrowings	65,100	275,100
Accounts payable	95,580	93,955
Regulatory balancing accounts	12,213	59,303
Accrued interest	5,674	6,122
Accrued expenses and other liabilities	<u>37,688</u>	<u>40,559</u>
Total current liabilities	<u>321,166</u>	<u>490,959</u>
Unamortized investment tax credits	1,649	1,724
Deferred income taxes, net	213,033	194,617
Pension and postretirement benefits other than pensions	193,538	252,141
Regulatory liability and Other (*)	256,522	221,032
Advances for construction	186,342	182,502
Contributions in aid of construction	<u>225,270</u>	<u>186,721</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$ 2,837,704</u>	<u>\$ 2,744,710</u>

(*) The 2017 as reported net income was increased for an immaterial error that understated operating revenue.

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited

(In thousands, except per share data)

For the Three Months ended:	December 31, 2018	December 31, 2017 (*)
Operating revenue	\$ 167,416	\$ 164,296
Operating expenses:		
Operations:		
Water production costs	61,050	60,407
Administrative and general	23,586	26,418
Other operations	19,561	18,788
Maintenance	6,898	5,653
Depreciation and amortization	21,104	19,133
Income taxes	1,640	4,740
Property and other taxes	7,043	6,080
Total operating expenses	<u>140,882</u>	<u>141,219</u>
Net operating income	<u>26,534</u>	<u>23,077</u>
Other income and expenses:		
Non-regulated revenue	4,305	5,155
Non-regulated expenses	(6,288)	(2,483)
Other components of net periodic benefit cost	(2,324)	(2,565)
Allowance for equity funds used during construction	1,310	987
Income tax benefit (expense) on other income and expenses	835	(443)
Net other (loss) income	<u>(2,162)</u>	<u>651</u>
Interest expense:		
Interest expense	9,710	9,215
Allowance for borrowed funds used during construction	(704)	(595)
Net interest expense	<u>9,006</u>	<u>8,620</u>
Net income	<u>\$ 15,366</u>	<u>\$ 15,108</u>
Earnings per share		
Basic	<u>\$ 0.32</u>	<u>\$ 0.31</u>
Diluted	<u>\$ 0.32</u>	<u>\$ 0.31</u>
Weighted average shares outstanding		
Basic	<u>48,067</u>	<u>48,014</u>
Diluted	<u>48,067</u>	<u>48,014</u>
Dividends per share of common stock	<u>\$ 0.1875</u>	<u>\$ 0.1800</u>

(*) The 2017 as reported net income was increased for an immaterial error that understated operating revenue.

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited

(In thousands, except per share data)

For the Twelve Months ended:	December 31, 2018	December 31, 2017 (*)
Operating revenue	\$ 698,196	\$ 676,113
Operating expenses:		
Operations:		
Water production costs	252,847	241,867
Administrative and general	100,781	93,326
Other operations	79,868	74,448
Maintenance	24,494	22,530
Depreciation and amortization	83,781	76,783
Income taxes	18,589	35,279
Property and other taxes	27,296	24,797
Total operating expenses	<u>587,656</u>	<u>569,030</u>
Net operating income	<u>110,540</u>	<u>107,083</u>
Other income and expenses:		
Non-regulated revenue	18,272	15,898
Non-regulated expenses	(22,737)	(8,727)
Other components of net periodic benefit cost	(9,308)	(9,588)
Allowance for equity funds used during construction	3,954	3,750
Income tax benefit (expense) on other income and expenses	2,717	(1,548)
Net other loss	<u>(7,102)</u>	<u>(215)</u>
Interest expense:		
Interest expense	39,917	36,288
Allowance for borrowed funds used during construction	(2,063)	(2,360)
Net interest expense	<u>37,854</u>	<u>33,928</u>
Net income	<u>\$ 65,584</u>	<u>\$ 72,940</u>
Earnings per share		
Basic	<u>\$ 1.36</u>	<u>\$ 1.52</u>
Diluted	<u>\$ 1.36</u>	<u>\$ 1.52</u>
Weighted average shares outstanding		
Basic	<u>48,060</u>	<u>48,009</u>
Diluted	<u>48,060</u>	<u>48,009</u>
Dividends per share of common stock	<u>\$ 0.7500</u>	<u>\$ 0.7200</u>

(*) The 2017 as reported net income was increased for an immaterial error that understated operating revenue.



CALIFORNIA
WATER SERVICE GROUP
INVESTING FOR LIFE

Year-End 2018 Earnings Call Presentation

February 28, 2019



Forward-Looking Statements

This presentation contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 ("Act"). The forward-looking statements are intended to qualify under provisions of the federal securities laws for "safe harbor" treatment established by the Act. Forward-looking statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment.

Words such as would, expects, intends, plans, believes, estimates, assumes, anticipates, projects, predicts, forecasts or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are subject to uncertainty and changes in circumstances. Actual results may vary materially from what is contained in a forward-looking statement.

Factors that may cause a result different than expected or anticipated include, but are not limited to: governmental and regulatory commissions' decisions; changes in regulatory commissions' policies and procedures; the timeliness of regulatory commissions' actions concerning rate relief and other actions; changes in tax laws, the interpretation of tax laws, and accounting policies; changes in construction costs and availability of resources; the ability to successfully implement conservation measures; changes in customer water use patterns; the impact of weather and climate on water sales and operating results; and, other risks and unforeseen events.

When considering forward-looking statements, you should keep in mind the cautionary statements included in this paragraph, as well as the Annual 10-K, Quarterly 10-Q, and other reports filed from time-to-time with the Securities and Exchange Commission (SEC). The Company assumes no obligation to provide public updates of forward-looking statements.

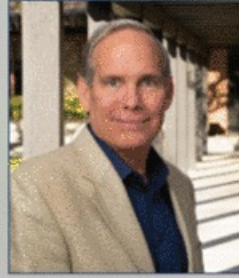
Today's Participants



Marty Kropelnicki
President & CEO



Tom Smegal
Vice President, CFO & Treasurer



Paul Townsley
Vice President, Corporate
Development and Chief Regulatory
Officer



Dave Healey
Vice President, Controller

Presentation Overview

- Our Operating Priorities
- Adjustment of Financial Statements
- Financial Results, Full Year and Fourth Quarter
- Financial Highlights
- EPS Bridge, Full Year and Fourth Quarter
- 2018 California General Rate Case (GRC)
- Other Rate Filings
- Business Development Activities
- Decoupling Balancing Account Update
- Outlook for 2019
- Cap Ex 2008 Recorded to 2021 Projected
- Rate Base 2014 recorded to 2022 projected
- Summary



Our Operating Priorities



Affordable, Excellent Service

- Continuous improvement, efficient innovation
- Technology as an enabler
- Control of operations & services of infrastructure
- Clear & effective communication



High-Quality Water & Wastewater

- Consistent cleaning & advanced monitoring
- Use of best available treatment & testing technologies



Employees as Best Advocates

- Safe workplace & healthy lifestyles
- Professional development
- Effective, transparent communication
- Turnover-9



Strong Brand & Reputation

- Environmental stewardship
- Community involvement & leadership
- Water conservation leadership
- Communication & corporate governance



Enhanced Stockholder Value

- Infrastructure investment
- Growth by criteria & for long term success (M&A/strategic partnerships)
- Risk management
- Progressive regulatory management
- Effective investor relations

Adjustment of Financial Statements

- During the year-end close process, Company management discovered it had incorrectly understated operating revenue for two cost recovery balancing accounts in 2017 and through the third quarter of 2018.
 - The error occurred as expensed amounts for pensions and medical costs were compared to total adopted (expense plus capital) amounts from the California GRC settlement
 - The settlement requires comparing expensed amounts to the adopted expense component of benefits - capitalized benefits are recovered elsewhere
 - The Company records its balancing account balances as regulatory assets and liabilities, as there has been demonstrated recovery in the regulatory process
- Correcting the error increased operating revenue \$9.2 million in 2017 and \$6.9 million for year-to-date September 30, 2018 with corresponding changes to regulatory assets and liabilities
- The Company has designed new controls to better prevent, detect, and correct this type of error in the future
- The details of the immaterial error were presented in the Company's 2018 10-K

Financial Results: Full Year

(amounts are in millions, except for EPS)	2017*		2018	Variance
Operating Revenue	\$676.1	▲	\$698.2	3.3%
Operating Expenses	\$569.0	▲	\$587.7	3.3%
Net Interest Expense	\$33.9	▲	\$37.9	11.6%
Net Income	\$72.9	▼	\$65.6	-10.0%
EPS	\$1.52	▼	\$1.36	-10.5%
Capital Investments	\$259.2	▲	\$271.7	4.8%

*2017 results presented as adjusted. Please see 2018 Form 10-K for details.

Financial Results: Fourth Quarter

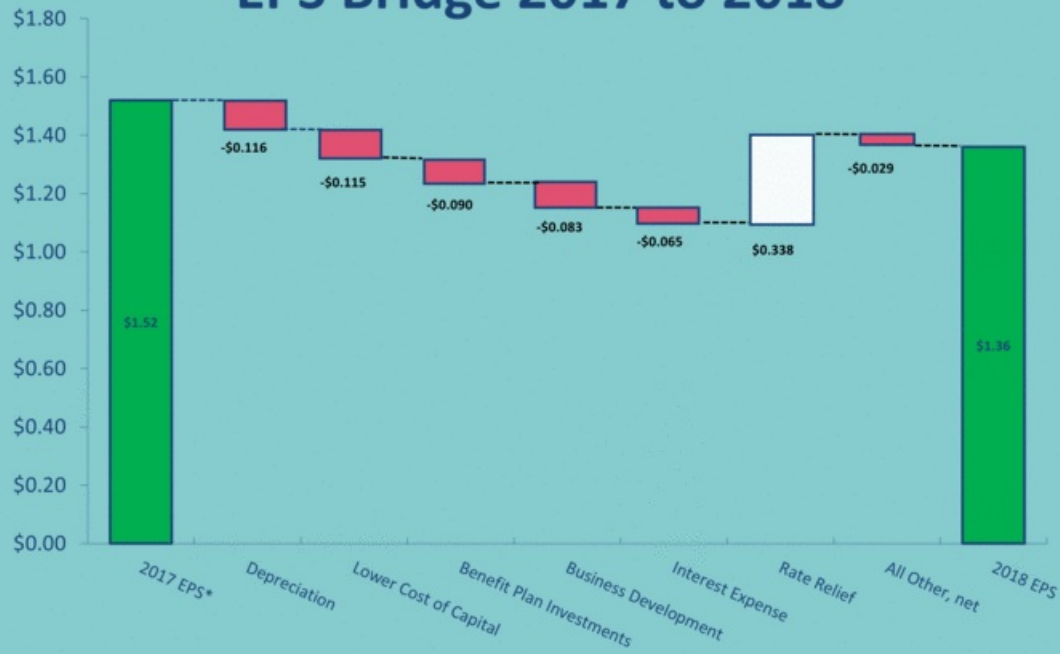
(amounts are in millions, except for EPS)	Q4 2017*		Q4 2018	Variance
Operating Revenue	\$164.3	▲	\$167.4	1.9%
Operating Expenses	\$141.2	▼	\$140.9	-
Net Interest Expense	\$8.6	▲	\$9.0	4.5%
Net Income	\$15.1	▲	\$15.4	2.0%
EPS	\$0.31	▲	\$0.32	3.2%
Capital Investments	\$78.8	▼	\$58.8	-25.4%

*2017 results presented as adjusted. Please see 2018 Form 10-K for details.

2018 Financial Highlights

- Net income decrease of \$7.3 million, largely attributable to:
 - Reduced revenue of \$6.9 million due to lower adopted cost of capital in 2018 in California
 - \$5.0 million increase in expenses related to business development
 - Reduced unrealized income of \$5.4 million from benefit plan investments due to market conditions
- Increased revenue from rate changes was partially offset by increases in ongoing operational costs of labor, maintenance, property taxes, interest, and depreciation
- Received approval to recover \$3.3 million of 2016-2017 drought expenses
- Effective tax rate for 2018 was 20% due to higher than anticipated repairs deductions for linear assets

EPS Bridge 2017 to 2018



*2017 results presented as adjusted. Please see 2018 Form 10-K for details.

EPS Bridge Q4 2017 to Q4 2018



*Q4 2017 results presented as adjusted. Please see 2018 Form 10-K for details.

Capital Investment Update

- Company, developer funded, and litigation proceeds funded capital investments were \$271.7 million, an increase of 4.8% compared to 2017
 - Increased investment in 2018 above initial expectation was related to higher cost for main replacement program, more unanticipated work, and better progress on reducing backlog of projects
 - 2018 also includes completion of work to treat 36 wells for 1,2,3-trichloropropane in three districts
- 2019 capital spending levels are pending regulatory developments and we will provide more clarity on targets later in the year
 - Projections of cap ex through 2021 shown later in these slides reflect the full \$828.5 million request and timing proposed in the California GRC

2018 California General Rate Case



- Cal Water filed its 2018 GRC on July 2, 2018, requesting \$828.5 million in capital investments over the period 2019-2021
- Three municipalities and the California Public Advocate (Cal PA) are participating in the case
 - Cal PA testimony was received on February 22, 2019 and the company is reviewing it
 - Cal Water's rebuttal testimony is due in late April

Other Rate Filings

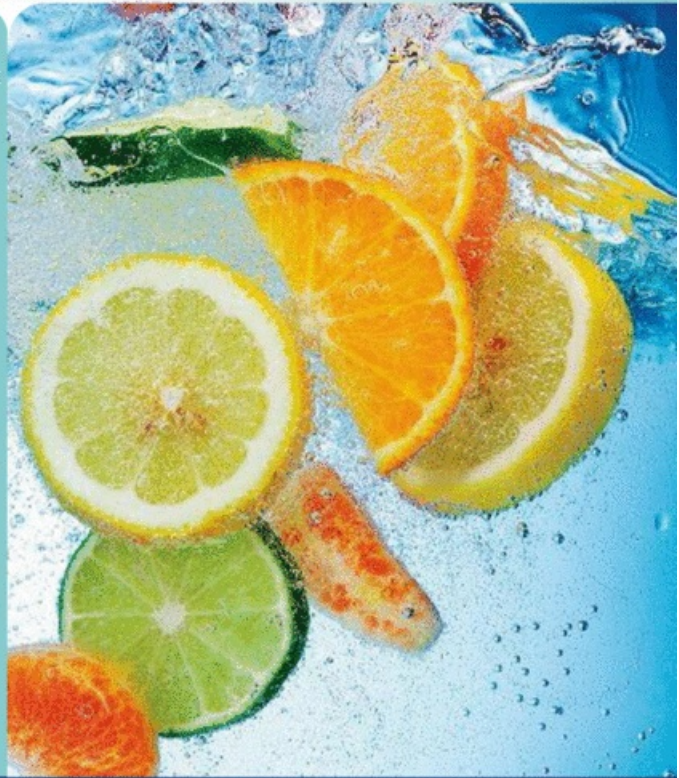
- Cal Water's escalation rate increase of \$16.2 million in annual revenue became effective on January 1, 2019
- The California Public Utilities Commission (CPUC) has approved advice letter projects totaling additional \$6.6 million of annual revenue out of authorization of up to \$30 million through 2019
 - Advice letters for \$0.2 million additional revenue are pending approval with anticipated effective dates in the 2nd quarter of 2019
 - The bulk of remaining advice letter filings will be near the end of the year as we complete several large projects
- Hawaii Waikoloa rate cases were finalized in January 2019 with total rate increases of \$2.6 million, \$1.6 million of which will be effective for 2019
- The Washington Water Service GRC was finalized in November 2018 with an approved increase of \$1.1 million in annual revenue

Business Development Activities

- We maintain an active business development approach focusing on opportunities near communities we serve
- In last six months, we made significant progress with four projects:
 - Granted approval from the CPUC to operate Travis Air Force Base beginning in July 2019 as a regulated operation
 - Began operating the wastewater system for the community of Keauhou on the island of Hawaii, with 1,500 mixed-use service connections
 - Agreed to acquire the water and wastewater system of The Preserve at Millerton, which is anticipated to serve 1,400 service connections at buildout
 - Agreed to operate the water and wastewater systems for the Tesoro Viejo development, planned to serve over 5,000 service connections at buildout

Decoupling Balancing Account Update

- Cal Water 2018 sales were 95% of adopted estimates
- Change in adopted sales due to triggering the Sales Reconciliation Mechanism (SRM), which allows for a true-up when annual sales are above or below adopted sales by more than 5%
- By including lower sales estimates in base rates, the SRM reduced the 2018 year-end WRAM/MCBA balance by \$21.4 million
- The net WRAM receivable balance is \$56.1 million, down from \$69.1 million at year-end 2017



Net WRAM Receivable Balance

(in millions; end-of-year balance)



Outlook for 2019

- Major effort for the Company in 2019 will be the successful completion of the California GRC.
- We are also creating a Southern California regional call center to extend service hours and channels to better align our services to customer preferences.
- 2019 planned capital investment will be dependent on timing of regulatory approval for the Company's request for \$828.5 million of new capital in California between 2019 and 2021.
- Rate increases in California, Hawaii, and Washington, offset by increased depreciation and interest costs, should provide the Company an opportunity to earn near its authorized return on equity in 2019.
 - The third year of the GRC cycle in California usually generates the largest gap in cost recovery.
- Additional advice letter revenue in California not expected to add materially to 2019 income. The largest advice letter projects are not likely to conclude until late in 2019.
- We estimate a 2019 effective tax rate of 24% because of uncertainty in the amount and timing of linear asset construction.

Capital Investment History and Projection

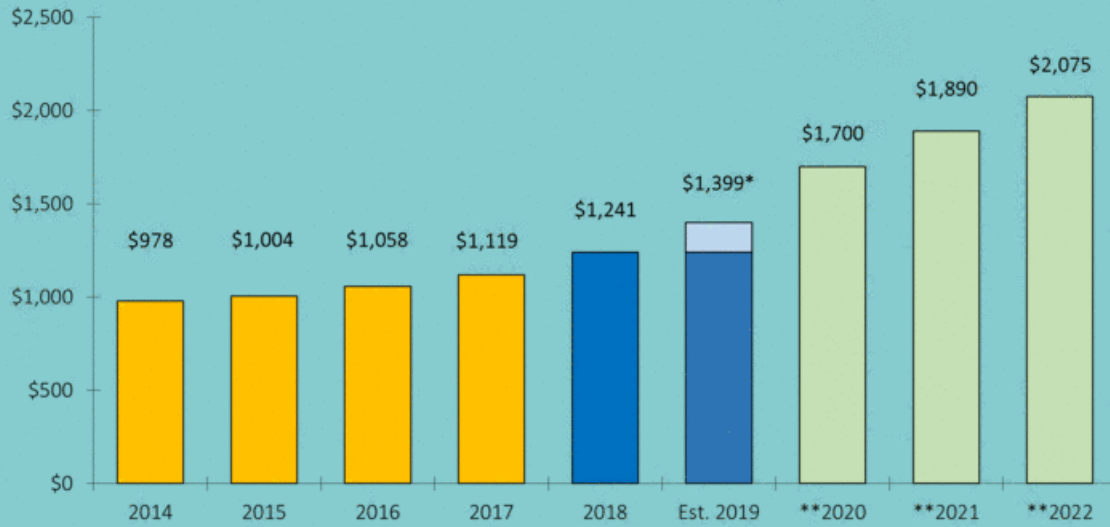
(in millions)



*2019-2021 include capital investments proposed to the CPUC and subject to change based on regulatory outcome and other factors.

Regulated Rate Base of CWT

(in millions)



* Includes allowable additions of up to \$197 million for advice letter recognition when projects are complete and in service.

**2020-2022 reflect rate base proposed in California GRC plus estimated rate base in other subsidiaries and are subject to change based on the regulatory process.

Officer Changes in 2019

- Vice President, Operations and Chief Utility Operations Officer Tim Treloar is retiring in early 2019 after 25 years of service
- We added two members to the Officer team:
 - Mike Mares, Vice President, California Operations, is a 26-year veteran of the company who has most recently served as District Manager in Bakersfield and General Manager of Hawaii Water Service
 - Greg Milleman, Vice President, California Rates, has been with the company six years, most recently as Interim Director of Rates and Director of Field Administration & Finance. He was previously with Valencia Water Company as its Senior Vice President of Administration and Corporate Secretary and has a total of 26 years of water industry experience.

Summary

- 2018 was a solid year, considering business development costs and a lower adopted cost of capital in California.
- We experienced significant wildfire activity in or near our service territories in 2018 and provided top-notch emergency service to our customers. Our efforts to plan for emergencies will continue as a top priority in 2019.
- Record capital spending again in 2018
 - 2019 and future capital will be shaped by the progress we make in the California GRC
- For the second year in a row, we achieved nearly all available step rate increases, based on our completion of required capital projects
- Focus for 2019 is the California GRC rebuttal and settlement





CALIFORNIA
WATER SERVICE GROUP
INVESTING FOR LIFE

Discussion

