
**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 27, 2020**

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))

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

| <u>Title of each class</u> | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|---------------------------------|--------------------------|--|
| Common Shares, par value \$0.01 | CWT | New York Stock Exchange |

Indicate by check mark whether the registrant is an emerging growth company as defined by 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 27, 2020, 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 2019, ended December 31, 2019. 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 on Thursday, February 27, 2020 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:

| Exhibit No. | Description |
|----------------------|---|
| 99.1 | Press Release issued February 27, 2020 |
| 99.2 | Slide presentation relating to conference call |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document) |

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 27, 2020

By: /s/ Thomas F. Smegal

Name: Thomas F. Smegal

Title: Vice President, Chief Financial Officer & Treasurer



February 27, 2020
For immediate release

CALIFORNIA WATER SERVICE GROUP ANNOUNCES 2019 EARNINGS FOR YEAR AND FOURTH QUARTER

SAN JOSE, CA – California Water Service Group (NYSE: CWT) (the “Company”) today announced net income of \$63.1 million and diluted earnings per share of \$1.31 for 2019, compared to net income of \$65.6 million and diluted earnings per share of \$1.36 in 2018. 2019 was the third and final year of rate authorization under the 2015 General Rate Case (“GRC”) for the Company’s California subsidiary, California Water Service Company (“Cal Water.”)

The \$2.5 million decrease in net income for the year was driven primarily by increases in administrative and general, other operations, depreciation and amortization, maintenance, property and other taxes, and net interest expense. In addition, a reduction in income tax benefit from repairs deductions resulted in a \$2.3 million decrease in 2019 net income as compared to the prior year. These cost increases were partially offset by general rate increases, reduction in business development expenses, and an increase in the allowance for equity funds used during construction.

The decrease in 2019 net income was partly mitigated by items outside the Company’s immediate control, including a \$7.4 million unrealized gain from certain benefit plan investments due to market conditions, which was partially offset by a \$2.2 million reduction in the unbilled revenue accrual and a \$1.6 million decrease in benefits from Company-owned life insurance.

President and Chief Executive Officer Martin A. Kropelnicki said he was pleased with the Company’s operating results and overall performance in 2019.

“We are focused on delivering long-term stockholder value, and one way we do that is by providing excellent customer service. In 2020, we had zero health-based water quality violations, we opened two regional customer service centers, and we invested \$273.8 million in our water system infrastructure in order to deliver a safe, reliable water supply,” he said.

“We also worked diligently through the regulatory process and reached an agreement with the California Public Advocates Office to invest up to \$828 million in water infrastructure in 2019, 2020, and 2021. Although this decision has been delayed, we are authorized to track the differences between current and final rates and capture these differences back to January 1, 2020 when a decision is eventually received,” he said.

According to Kropelnicki, another highlight of the year was Cal Water’s performance during the electric utilities’ Public Safety Power Shutoffs (“PSPS”). “Because of our significant investment and preparation, and the hard work of our employees, we kept water flowing to customers even when we experienced simultaneous power shut-offs affecting more than 60 of our water facilities for as long as six days.”

Additional Financial Results for 2019

Total revenue increased 2.3% to \$714.6 million in 2019 compared to \$698.2 million in 2018, primarily due to rate increases. Rate increases added \$25.4 million, \$5.7 million of which was related to increased water costs. Accrued unbilled revenue decreased by \$2.2 million.

Total operating expenses increased \$27.5 million, or 4.7%, to \$615.1 million in 2019 compared to the prior year.

Water production expenses increased \$2.5 million, or 1.0%, to \$255.4 million in 2019, 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 \$18.0 million, or 10.0%, to \$198.7 million in 2019, primarily due to increases in conservation program expenses, employee wage costs, legal and outside service costs, PSPS program response costs, uninsured losses, and software licensing costs. Also, 2018 expenses reflected reductions from the recovery of \$3.3 million for 2016 and 2017 drought program incremental costs. Changes in conservation program expense, employee pension benefits and employee and retiree medical costs for regulated California operations generally do not affect net income, as the Company has been allowed by the California Public Utilities Commission (“CPUC”) to record these costs in balancing accounts for future recovery, creating a corresponding change to revenue.

Maintenance expenses increased \$2.3 million, or 9.6%, to \$26.8 million in 2019, due to vegetation management at pump stations as well as amortization of reservoir coating projects in accordance with CPUC orders.

Income taxes decreased \$2.3 million, or 12.4%, to \$16.3 million in 2019, due to a decrease in pre-tax income which was partially offset by a decrease in the tax benefit from the flow-through method of accounting for “repairs” deductions on state corporate income tax filings.

Property and other taxes increased \$1.5 million, or 5.5%, to \$28.8 million, due mostly to an increase in our assessed property values for utility plant placed in service during the year.

Net other income increased \$12.0 million in 2019, due primarily to a \$7.4 million increase in unrealized gain from certain benefit plan investments due to market conditions, \$4.4 million decrease in business development expenses, and a \$2.7 million increase in allowance for equity funds used during construction. These were partially offset by wage increases of \$0.7 million and a decrease in the benefits from Company-owned life insurance of \$1.6 million.

Fourth Quarter 2019 Results

For the fourth quarter of 2019, net income was \$11.3 million and diluted earnings per share was \$0.24, compared to net income of \$15.4 million and diluted earnings per share of \$0.32 in the fourth quarter of 2018. The \$4.1 million decrease in net income resulted primarily from a reduction in 2018 expenses for the recovery of \$3.3 million for 2016 and 2017 drought program incremental costs. The quarter was also impacted by expense increases of \$1.3 million in uninsured losses, \$1.0 million in PSPS program response costs, \$1.1 million in depreciation and amortization, \$1.0 million in outside services, \$1.5 million in non-regulated expenses, \$1.5 million of net interest expense, and \$0.7 of maintenance expense. These factors were partially offset by general rate increases of \$4.4 million and a \$3.9 million increase in unrealized gains from certain benefit plan investments due to market conditions.

Revenue for the fourth quarter increased \$9.5 million, or 5.7%, to \$176.9 million, mostly due to rate increases of \$5.9 million, of which \$1.5 million was related to increased water costs.

Total operating expenses for the quarter increased \$15.6 million to \$156.5 million. Water production expenses increased \$3.5 million mostly due to increases in purchased water quantities and increased wholesale water rates. Administrative and general and other operations expenses increased \$9.3 million, or 21.6%, to \$52.5 million, mostly due to a reduction in 2018 expenses of \$3.3 million for recovery of 2016 and 2017 drought program incremental costs, and increases in conservation program costs, employee wage and health care costs, uninsured losses, and outside service costs. Maintenance expense increased \$0.7 million to \$7.6 million. Depreciation and amortization increased \$1.1 million. Other income and expenses, net of income taxes, increased \$3.6 million to \$1.5 million mostly due to a \$3.9 million increase in unrealized gains from certain benefit plan investments due to market conditions. Net interest expense increased \$1.5 million to \$10.5 million.

The under-collected net receivable balance in the Water Revenue Adjustment Mechanism and Modified Cost Balancing Account was \$62.6 million as of December 31, 2019, an increase of 11.5%, or \$6.5 million, from the balance of \$56.1 million as of December 31, 2018.

Regulatory Update

On October 8, 2019, Cal Water jointly filed a formal settlement agreement for its 2018 GRC with the Public Advocates Office of the CPUC covering the majority of open matters in the case. A handful of significant matters remain including benefits balancing accounts, the WRAM decoupling mechanism, construction financing costs, and depreciation rates. The largest component of the GRC is Cal Water's Infrastructure Improvement Plan for 2019-2021. The settlement details investment plans that Cal Water and the Public Advocates Office agree should be made to Cal Water's water infrastructure to continue providing safe, reliable water service to Cal Water customers and communities. The CPUC will consider, but is not required to adopt, the settlement agreement. If the CPUC approves the settlement agreement, Cal Water would be authorized to include in rates \$609.0 million to \$628.0 million of new projects throughout the state in 2019 to 2021, along with approximately \$200.0 million for completion of additional projects begun in 2018 and prior periods. Included in these figures are \$148.0 million of advice letter authorizations, which would not be included in rates until related projects are completed. Cal Water anticipates that if the settlement were adopted, it would plan to make capital investments of approximately \$809.0 million to \$828.0 million in the 2019-2021 period. The settlement proposes, in part, an average water main replacement rate of 0.76% annually company-wide by 2021.

On December 19, 2019, the CPUC extended its statutory deadline to complete the proceeding by six months, to July 1, 2020. On December 31, 2019, Cal Water requested a memorandum account to record the difference between the current rates that would continue to be billed starting January 1, 2020 (considered to be interim rates), and the rates that will eventually be approved in the case (final rates). After a GRC decision is adopted and final rates are implemented, the balance in the memorandum account will be reviewed, and customer bills will be adjusted to account for the difference between interim rates and final rates back to January 1, 2020.

Business Growth Update

On November 6, 2019, Washington Water Service Company (“Washington Water”), the Company’s Washington operating subsidiary, entered into an agreement with Rainier View Water Company to acquire its water system assets and to provide water utility service to its approximately 18,000 service connections, subject to certain closing conditions including completion of diligence and Washington Utilities and Transportation Commission (“WUTC”) approval. In February 2020, the companies filed a joint change in control application with the WUTC. Rainier View Water Company owns and operates 27 water systems that serve approximately 35,000 people in parts of Graham, Spanaway, Puyallup, Gig Harbor, and other nearby areas. Washington Water plans to retain Rainier View Water Company’s current employees and continue to provide its customers with a reliable supply of safe, high-quality water.

In December of 2019, Hawaii Water Service Company, Inc., the Company's Hawaii operating subsidiary, entered into an agreement with Maui Land and Pineapple Company, Inc. to acquire water and wastewater assets at the Kapalua resort on the Island of Maui. The transaction is subject to certain conditions including due diligence and approval by the Hawaii Public Utilities Commission.

Other Information

All stockholders and interested investors are invited to listen to the 2019 year-end and fourth quarter conference call on February 27, 2020 at 8:00 a.m. PST (11:00 a.m. EST) by dialing 1-833-832-5130 or 1-509-844-0151 and keying in ID #9879097. A replay of the call will be available from 11:00 a.m. PST (2:00 p.m. EST) on February 27, 2020 through April 27, 2020, at 1-855-859-2056 or 1-404-537-3406, ID #9879097. The replay will also be available under the investor relations tab at www.calwatergroup.com. Prior to the call, the Company will post a slide presentation on its website. The presentation can be found at <https://www.calwatergroup.com/docs/2019q4slides.pdf> after 6:00 a.m. PST. 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 of 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 Company, Washington Water Service Company, New Mexico Water Service Company, Hawaii Water Service Company, Inc., CWS Utility Services, and HWS Utility Services LLC. Together, these companies provide regulated and non-regulated water service to more than 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; inability to renew leases to operate city water systems on beneficial terms; changes in California State Water Resources Control Board water quality standards; changes in environmental compliance and water quality requirements; electric power interruptions; changes in customer water use patterns and the effects of conservation; the impact of weather and climate on water availability, water sales and operating results; the unknown impact of contagious diseases, on the Company's operations; civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type; labor relations matters as we negotiate with the unions; restrictive covenants in or changes to the credit ratings on our current or future debt that could increase our financing costs or affect our ability to borrow, make payments on debt or pay dividends; 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. The Company assumes no obligation to provide public updates of forward-looking statements.

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Contact

Tom Smegal
(408) 367-8200 (analysts)

Shannon Dean
(408) 367-8243 (media)

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited
(In thousands, except per share data)

| | December 31 | December 31 |
|---|---------------------|---------------------|
| | 2019 | 2018 |
| ASSETS | | |
| Utility plant: | | |
| Utility plant | \$ 3,550,485 | \$ 3,229,446 |
| Less accumulated depreciation and amortization | (1,144,115) | (996,723) |
| Net utility plant | <u>2,406,370</u> | <u>2,232,723</u> |
| Current assets: | | |
| Cash and cash equivalents | 42,653 | 47,176 |
| Receivables: | | |
| Customers | 32,058 | 30,037 |
| Regulatory balancing accounts | 38,225 | 42,394 |
| Other | 14,187 | 17,101 |
| Unbilled revenue | 34,879 | 33,427 |
| Materials and supplies at weighted average cost | 7,745 | 6,586 |
| Taxes, prepaid expenses, and other assets | 14,965 | 11,981 |
| Total current assets | <u>184,712</u> | <u>188,702</u> |
| Other assets: | | |
| Regulatory assets | 433,322 | 353,569 |
| Goodwill | 2,615 | 2,615 |
| Other assets | 84,289 | 60,095 |
| Total other assets | <u>520,226</u> | <u>416,279</u> |
| TOTAL ASSETS | \$ 3,111,308 | \$ 2,837,704 |
| CAPITALIZATION AND LIABILITIES | | |
| Capitalization: | | |
| Common stock, \$.01 par value; 68,000 shares authorized, 48,532 and 48,065 outstanding in 2019 and 2018, respectively | \$ 485 | \$ 481 |
| Additional paid-in capital | 362,275 | 337,623 |
| Retained earnings | 417,146 | 392,053 |
| Total common stockholders' equity | <u>779,906</u> | <u>730,157</u> |
| Long-term debt, net | 786,754 | 710,027 |
| Total capitalization | <u>1,566,660</u> | <u>1,440,184</u> |
| Current liabilities: | | |
| Current maturities of long-term debt, net | 21,868 | 104,911 |
| Short-term borrowings | 175,100 | 65,100 |
| Accounts payable | 108,463 | 95,580 |
| Regulatory balancing accounts | 4,462 | 12,213 |
| Accrued interest | 5,810 | 5,674 |
| Accrued other liabilities | 43,018 | 37,688 |
| Total current liabilities | <u>358,721</u> | <u>321,166</u> |
| Unamortized investment tax credits | 1,575 | 1,649 |
| Deferred income taxes | 222,590 | 213,033 |
| Pension and postretirement benefits other than pensions | 258,907 | 193,538 |
| Regulatory liabilities and other | 270,256 | 256,522 |
| Advances for construction | 191,062 | 186,342 |
| Contributions in aid of construction | 241,537 | 225,270 |
| Commitments and contingencies | | |
| TOTAL CAPITALIZATION AND LIABILITIES | \$ 3,111,308 | \$ 2,837,704 |

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited
(In thousands, except per share data)

For the Three Months ended:

| | December 31, 2019 | December 31, 2018 |
|---|----------------------|----------------------|
| Operating revenue | \$ 176,878 | \$ 167,417 |
| Operating expenses: | | |
| Operations: | | |
| Water production costs | 64,546 | 61,050 |
| Administrative and general | 27,307 | 23,586 |
| Other operations | 25,148 | 19,561 |
| Maintenance | 7,622 | 6,898 |
| Depreciation and amortization | 22,253 | 21,104 |
| Income taxes | 2,756 | 1,639 |
| Property and other taxes | 6,890 | 7,043 |
| Total operating expenses | <u>156,522</u> | <u>140,881</u> |
| Net operating income | <u>20,356</u> | <u>26,536</u> |
| Other income and expenses: | | |
| Non-regulated revenue | 5,056 | 4,305 |
| Non-regulated expenses | (3,371) | (6,288) |
| Other components of net periodic benefit cost | (1,425) | (2,324) |
| Allowance for equity funds used during construction | 1,598 | 1,310 |
| Income tax (expense) benefit on other income and expenses | (406) | 835 |
| Net other income (loss) | <u>1,452</u> | <u>(2,162)</u> |
| Interest expense: | | |
| Interest expense | 11,359 | 9,710 |
| Allowance for borrowed funds used during construction | (887) | (704) |
| Net interest expense | <u>10,472</u> | <u>9,006</u> |
| Net income | <u>\$ 11,336</u> | <u>\$ 15,368</u> |
| Earnings per share | | |
| Basic | <u>\$ 0.24</u> | <u>\$ 0.32</u> |
| Diluted | <u>\$ 0.24</u> | <u>\$ 0.32</u> |
| Weighted average shares outstanding | | |
| Basic | <u>48,306</u> | <u>48,067</u> |
| Diluted | <u>48,306</u> | <u>48,067</u> |
| Dividends per share of common stock | <u>\$ 0.1975</u> | <u>\$ 0.1875</u> |

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited
(In thousands, except per share data)

For the Twelve Months ended:

| | December 31, 2019 | December 31, 2018 |
|---|----------------------|----------------------|
| Operating revenue | \$ 714,557 | \$ 698,196 |
| Operating expenses: | | |
| Operations: | | |
| Water production costs | 255,341 | 252,847 |
| Administrative and general | 108,617 | 100,781 |
| Other operations | 90,061 | 79,868 |
| Maintenance | 26,834 | 24,494 |
| Depreciation and amortization | 89,220 | 83,781 |
| Income taxes | 16,280 | 18,589 |
| Property and other taxes | 28,792 | 27,296 |
| Total operating expenses | <u>615,145</u> | <u>587,656</u> |
| Net operating income | <u>99,412</u> | <u>110,540</u> |
| Other income and expenses: | | |
| Non-regulated revenue | 19,205 | 18,272 |
| Non-regulated expenses | (13,841) | (22,737) |
| Other components of net periodic benefit cost | (5,733) | (9,308) |
| Allowance for equity funds used during construction | 6,685 | 3,954 |
| Income tax (expense) benefit on other income and expenses | (1,391) | 2,717 |
| Net other income (loss) | <u>4,925</u> | <u>(7,102)</u> |
| Interest expense: | | |
| Interest expense | 44,891 | 39,917 |
| Allowance for borrowed funds used during construction | (3,670) | (2,063) |
| Net interest expense | <u>41,221</u> | <u>37,854</u> |
| Net income | <u>\$ 63,116</u> | <u>\$ 65,584</u> |
| Earnings per share | | |
| Basic | <u>\$ 1.31</u> | <u>\$ 1.36</u> |
| Diluted | <u>\$ 1.31</u> | <u>\$ 1.36</u> |
| Weighted average shares outstanding | | |
| Basic | <u>48,168</u> | <u>48,060</u> |
| Diluted | <u>48,168</u> | <u>48,060</u> |
| Dividends per share of common stock | <u>\$ 0.7900</u> | <u>\$ 0.7500</u> |



CALIFORNIA
WATER SERVICE GROUP
INVESTING FOR LIFE

**Year-End and Fourth Quarter 2019 Earnings Call
Presentation**

February 27, 2020



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 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: ability to invest or apply the proceeds from the issuance of common stock in an accretive manner; 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; increased risk of inverse condemnation losses as a result of climate conditions; inability to renew leases to operate water systems owned by others 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, especially as a result of Public Safety Power Shutoff programs for the 2019 fire season as we further develop approaches to manage that risk; 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; 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 unions; 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.

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
- Financial Results, 2019 and Q4
- Financial Highlights, 2019 and Q4
- EPS Bridge, 2019 vs. 2018
- 2018 California General Rate Case (“GRC”) and 2020 Financial Reporting Impacts
- Capital Investment Update
- Business Development Update
- Wildfires and Public Safety Power Shutoffs (“PSPS”)
- Update on Perfluorinated Compounds
- Decoupling Balancing Account Update
- Cap Ex 2008 Recorded to 2021 Projected
- Rate Base 2014 Recorded to 2022 Projected
- Wrapping Up and Look Ahead



Our Operating Priorities



Affordable, Excellent Service

- Continuous improvement, efficient innovation
- Technology as enabler
- Centralized platform & process standardization
- Clear & effective communications



High-Quality Water & Wastewater

- Consistent sampling & rigorous monitoring
- Use of best available treatment & testing technologies



Employees as Best Advocates

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



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 (organic/MSA/renewable partnerships)
- Risk management
- Progressive regulatory management
- Effective investor relations

Financial Results: Full-Year

| (amounts are in millions, except for EPS) | 2018 | | 2019 | Variance |
|---|---------|---|---------|----------|
| Operating Revenue | \$698.2 | ▲ | \$714.6 | 2.3% |
| Operating Expenses | \$587.7 | ▲ | \$615.1 | 4.7% |
| Net Interest Expense | \$37.9 | ▲ | \$41.2 | 8.9% |
| Net Income | \$65.6 | ▼ | \$63.1 | -3.8% |
| EPS | \$1.36 | ▼ | \$1.31 | -3.7% |
| Capital Investments | \$271.7 | ▲ | \$273.8 | 0.8% |

Financial Results: Fourth Quarter

| (amounts are in millions, except for EPS) | Q4 2018 | | Q4 2019 | Variance |
|---|---------|---|---------|----------|
| Operating Revenue | \$167.4 | ▲ | \$176.9 | 5.7% |
| Operating Expenses | \$140.9 | ▲ | \$156.5 | 11.1% |
| Net Interest Expense | \$9.0 | ▲ | \$10.5 | 16.3% |
| Net Income | \$15.4 | ▼ | \$11.3 | -26.2% |
| EPS | \$0.32 | ▼ | \$0.24 | -25.0% |
| Capital Investments | \$58.8 | ▲ | \$78.8 | 33.9% |

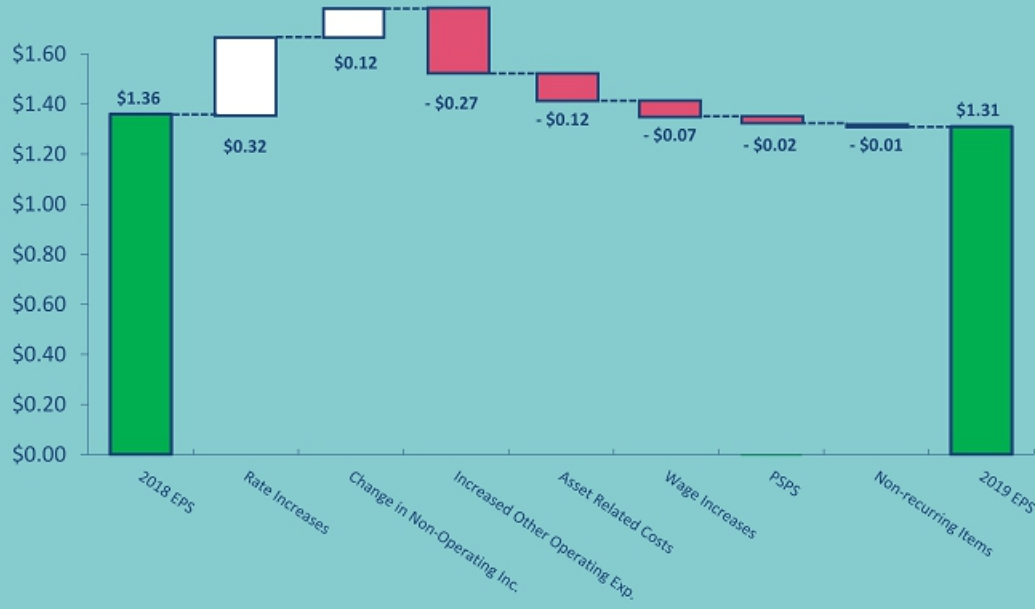
2019 Financial Highlights

- Net income decreased by \$2.5 million to \$63.1 million; notable factors included:
 - Rate increases of \$19.7 million were offset by asset-related costs of \$7.6 million and increased expenses of \$4.6 million for wages and \$13.1 million for other operations
 - The company saw a reduction of \$4.4 million in business development expenses, offset by \$3.3 million less revenue from non-recurrence of drought cost recovery
 - \$2.1 million costs to prepare for Public Safety Power Shutoffs (PSPS) and wildfire risk reduction activities in 2019
 - Change in value of certain benefit plan investments added \$7.4 million which was partially offset by a \$2.2 million reduction to unbilled revenue accrual and \$1.6 million reduction in benefit from Company-owned life insurance
 - Our final effective tax rate was 22%, higher than the 20% in 2018 due to a decrease in the benefit from repairs tax deductions
 - Capital Improvements accelerated in the fourth quarter, leading us to a record investment of \$273.8 million in 2019

Q4 Financial Highlights

- Net income decreased by \$4.1 million to \$11.3 million; notable factors included:
 - \$4.4 million of general rate increases were offset by asset related expense increases of \$2.8 million and cost increases of \$3.9 million for wages, uninsured losses, outside services, and maintenance costs.
 - \$3.3 million recovery of 2016 and 2017 incremental drought program costs in 2018 did not recur in 2019.
 - \$1.0 million in PSPS program response costs in the quarter.
 - \$3.9 million increase in unrealized income from certain benefit plan investments due to market conditions partially offset by a \$1.5 million increase in non-operating expenses.
-

EPS Bridge 2018 to 2019



2018 California General Rate Case

- On October 8, 2019 Cal Water and the California Public Utilities Commission ("CPUC") Public Advocates Office filed a settlement covering the majority of issues in the case. The settlement must be approved by the CPUC.
 - Included in the settlement are \$609 million of new capital authorizations along with approximately \$200 million authorized improvements initiated in 2018 and prior years.
 - Disputed issues not included in the settlement include continuation of the Water Revenue Adjustment Mechanism ("WRAM") and Sales Reconciliation Mechanism ("SRM"), balancing accounts for pension and medical costs, depreciation rates, working capital, allowance for equity funds used during construction, and advanced metering.
 - The assigned administrative law judge has allowed interim rates beginning January 1, 2020 but no decision on the disputed issues or the settlement has been issued. The CPUC extended its calendar and indicated it was planning to issue a decision in the first half of 2020.



Cal Water Rate Case Delay and 2020 Interim Period Financial Reporting

- While Cal Water will be allowed to true-up a final decision back to January 1, 2020, a decision delayed beyond April could potentially affect our first quarter 2020 financial reporting.
 - Management is reasonably certain that the settlement will be approved.
 - Some unresolved issues relate to our 2020 balancing accounts (WRAM and benefits balancing accounts) and the Company may elect not to incorporate disputed balancing account regulatory assets and liabilities into its interim financial reporting until disposition is more certain.
 - Management is reasonably certain that the past balances in the WRAM/MCBA and other balancing accounts are recoverable. The Company plans to file its annual surcharge recovery advice letter in April to amortize the existing WRAM balances.

2019 Capital Investment Update

- Full Year company and developer-funded capital investments were \$273.8 million, an increase of 0.8% compared to 2018.
 - Increased investments in the fourth quarter are attributable in part to improved progress on our Palos Verdes Water Supply Reliability Project and a reduction in wildfire activity compared to 2018 .
 - The Company's at-the-market equity program generated an additional net cash of \$19.3 million in the fourth quarter to fund capital additions.
 - The program is intended to raise a total of \$300 million through 2022.
-

Recent Business Development Activity

- Agreements we signed in 2019, when completed, will increase our customer base by 4.5%
- On November 6, 2019 we announced an agreement to acquire Rainier View Water ("RVW") in Washington state
 - RVW has approximately 18,000 service connections in close proximity to our existing Washington water systems and will almost double the size of our Washington operations
 - Joint change of control application was filed with the Washington Utilities and Transportation Commission in February 2020 and we anticipate closing the purchase in the second half of 2020
- On December 23, 2019 we announced an agreement to acquire Kapalua Water Company and Kapalua Waste Treatment Company which serve a combined 1,000 connections on the island of Maui in Hawaii
- In January 2020 we filed an application with the CPUC to serve the previously announced acquisition of the Preserve at Millerton in central California

Wildfires and Public Safety Power Shutoffs

- California experienced a relatively mild fire season with early rains and no major fires affecting our water systems
 - Our preparation and response to Public Safety Power Shutoffs (“PSPS”) and potential wildfires was effective in 2019 but we remain vigilant
 - Multiple PSPS affected our service areas including a large state-wide PSPS for up to five days in October
 - No water service interruptions due to PSPS
 - Cal Water spent \$1.5 million on readiness for PSPS and an additional \$0.6 million on wildfire prevention efforts in 2019
 - We will seek regulatory recovery in a future filing for the PSPS expenses and operating expenses related to declared wildfire emergencies
 - We anticipate additional readiness costs during the 2020 fire season and future years until the state’s wildfire mitigation plans become effective
-

Update on Perfluorinated Compounds

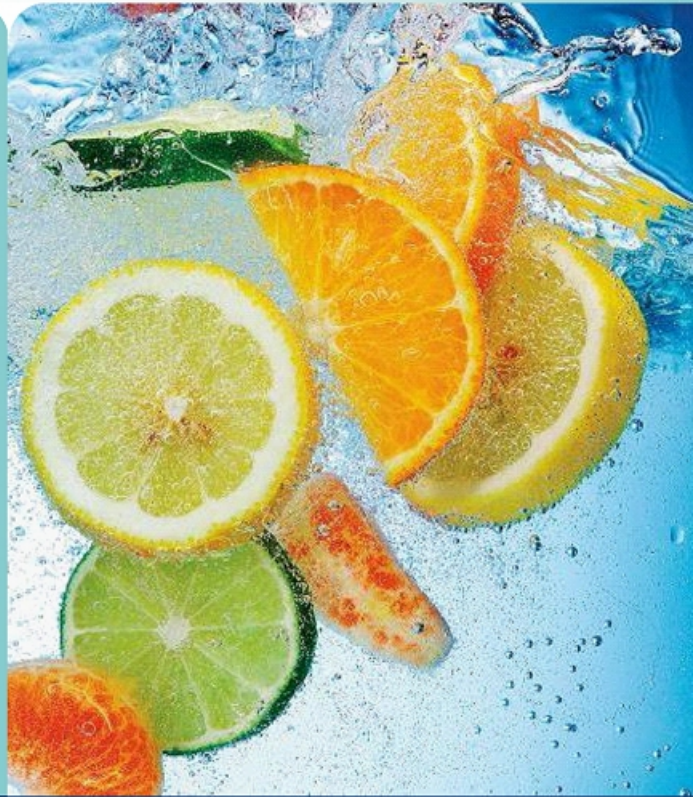
- Media and regulatory attention on PFOS* and PFOA*, among other related compounds (collectively referred to as PFAS*), has accelerated in the last several months. PFAS are man-made substances found in industrial processes and consumer products such as fire-fighting foam, shampoo, clothing, and food wrappers.
- There remain no regulatory maximum contaminant levels (“MCLs”) either from The US Environmental Protection Agency (EPA) or environmental regulators in the states we serve. New Jersey and New Hampshire have established MCLs and other states have proposed them. We anticipate MCL-setting processes will be accelerated by the EPA and regulators in the states we serve. Regulations will likely evolve rapidly.
- In February 2020, California’s Division of Drinking Water (“DDW”) revised downward its “response levels” for PFOA to 10 parts per trillion (“ppt”) and PFOS to 40 ppt. A response level, while not a health standard, indicates the level over which the DDW recommends a source be removed from service or treated.
- The Company has tested its wells which may have a higher risk of contamination from PFAS and will test all water sources by the end of 2020 to ensure we have comprehensive information.
- Cal Water is working to minimize customer exposure to PFAS particularly in response to DDW’s latest recommendations. We anticipate that any costs related to compliance will be recoverable in customer rates through the state regulatory process.
- The Company is participating in consolidated product liability litigation against manufacturers of firefighting foams which contain PFAS.

* PFOS refers to Perfluorooctane Sulfonic Acid, PFOA refers to Perfluorooctanoic Acid, and PFAS refers to the class of Per- & Polyfluoroalkyl Substances



Decoupling Balancing Account Update

- Cal Water 2019 sales were 86% of adopted estimates
- The net WRAM receivable balance is \$62.6 million, up from \$56.1 million at year-end 2018
- Adopted sales had been adjusted lower due to triggering the SRM, which allows for a true-up when annual sales are above or below adopted sales by more than 5%
- Had the SRM not been in place, lowering sales estimates in base rates, the WRAM/MCBA balance would have been \$14.9 million higher for 2019



Net WRAM Receivable Balance

(in millions; end-of-year balance)



Capital Investment History and Projection

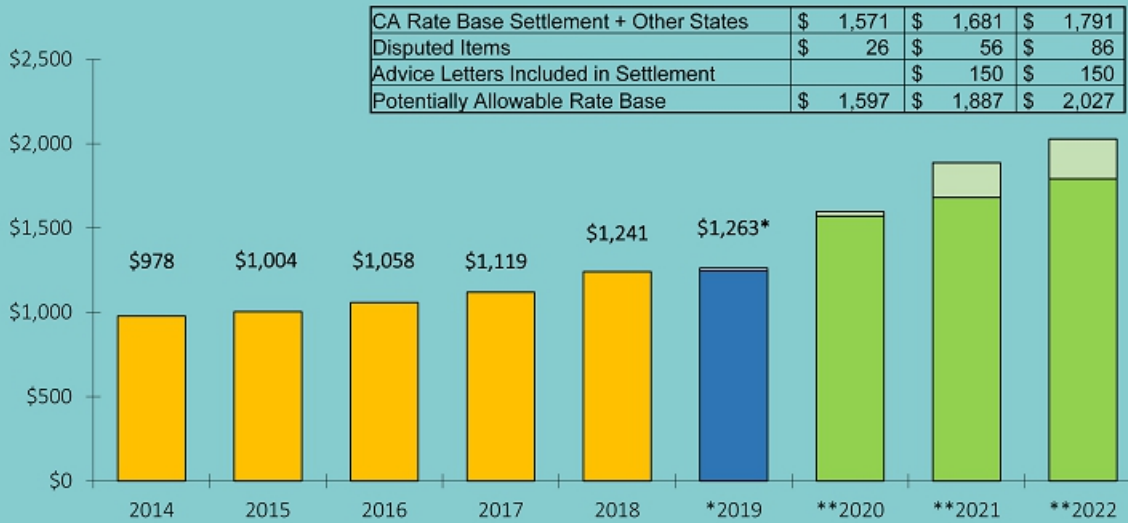
(in millions)



*2020-2021 include capital investments in the proposed settlement filed in the 2018 California GRC and subject to approval of the CPUC along with investments in other jurisdictions.

Regulated Rate Base of CWT

(in millions)



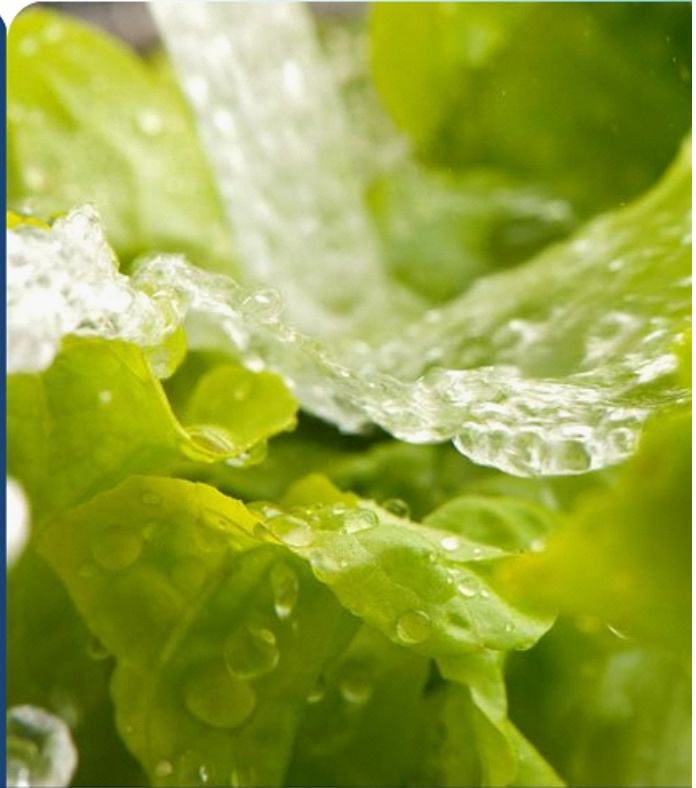
* Rate Base at year-end, including \$17.8 million of ratebase offset capital projects filed for recovery in late 2019.

**2020-2022 bar chart represents the minimum and maximum estimated rate base from the table above. The settlement in Cal Water's 2018 GRC is pending approval by the CPUC and any advice letter rate base authorized by the CPUC would be included only after projects are complete and in service.



Wrapping Up and Look Ahead

- Company focus is on concluding the California GRC and ensuring the settlement is adopted by the CPUC
- First quarter potential 10-Q “noise” related to reporting on balancing accounts
- We look forward to welcoming Rainier View’s employees and customers to our company later in the year
- Company operations will continue its focus on needed cap ex, emergency preparedness, safety, and water quality





CALIFORNIA
WATER SERVICE GROUP
INVESTING FOR LIFE

Discussion

