

CALIFORNIA WATER SERVICE GROUP

Form 10-Q

October 26, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

or

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

For the transition period from _____ to _____

Commission file number 1-13883

CALIFORNIA WATER SERVICE GROUP

(Exact name of registrant as specified in its charter)

Delaware 77-0448994

(State or other jurisdiction (I.R.S. Employer identification No.)

of incorporation or organization)

1720 North First Street, San Jose, CA 95112

(Address of principal executive offices) (Zip Code)

408-367-8200

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the 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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated Filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company) 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. ☐

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Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act) Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding as of September 30, 2017 — 48,015,140

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PART I FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS

The condensed consolidated financial statements presented in this filing on Form 10-Q have been prepared by management and are unaudited.

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited (In thousands, except per share data)

	September 30, 2017	December 31, 2016
ASSETS		
Utility plant:		
Utility plant	\$ 2,892,666	\$ 2,717,339
Less accumulated depreciation and amortization	(910,742)	(858,062)
Net utility plant	1,981,924	1,859,277
Current assets:		
Cash and cash equivalents	28,341	25,492
Receivables:		
Customers	46,963	30,305
Regulatory balancing accounts	31,364	30,332
Other	16,438	17,158
Unbilled revenue	38,491	25,228
Materials and supplies at weighted average cost	6,344	6,292
Taxes, prepaid expenses, and other assets	12,544	7,262
Total current assets	180,485	142,069
Other assets:		
Regulatory assets	379,884	355,930
Goodwill	2,615	2,615
Other assets	58,196	51,854
Total other assets	440,695	410,399
TOTAL ASSETS	\$ 2,603,104	\$ 2,411,745
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$0.01 par value; 68,000 shares authorized, 48,015 and 47,965 outstanding in 2017 and 2016, respectively	\$ 480	\$ 480
Additional paid-in capital	335,516	334,856
Retained earnings	351,727	324,135
Total common stockholders' equity	687,723	659,471
Long-term debt, less current maturities	519,700	531,745
Total capitalization	1,207,423	1,191,216
Current liabilities:		
Current maturities of long-term debt	36,015	26,208
Short-term borrowings	195,100	97,100
Accounts payable	89,394	77,813
Regulatory balancing accounts	4,545	4,759

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Accrued interest	12,763	5,661
Accrued expenses and other liabilities	42,544	38,689
Total current liabilities	380,361	250,230
Unamortized investment tax credits	1,798	1,798
Deferred income taxes	329,506	298,924
Pension and postretirement benefits other than pensions	227,819	222,691
Regulatory liabilities and other	91,006	83,648
Advances for construction	182,820	182,448
Contributions in aid of construction	182,371	180,790
Commitments and contingencies (Note 10)		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 2,603,104	\$ 2,411,745
See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements		

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited (In thousands, except per share data)

For the three months ended	September 30, 2017	September 30, 2016
Operating revenue	\$ 211,731	\$ 184,268
Operating expenses:		
Operations:		
Water production costs	75,261	70,175
Administrative and general	24,886	23,844
Other operations	21,208	19,561
Maintenance	6,057	5,545
Depreciation and amortization	19,231	15,884
Income taxes	17,348	13,247
Property and other taxes	6,544	5,957
Total operating expenses	170,535	154,213
Net operating income	41,196	30,055
Other income and expenses:		
Non-regulated revenue	3,542	3,397
Non-regulated expenses	(2,576)) (2,517)
Allowance for equity funds used during construction	1,105	—
Income tax expense on other income and expenses	(841)) (349)
Net other income	1,230	531
Interest expense:		
Interest expense	9,284	8,485
Allowance for borrowed funds used during construction	(707)) (774)
Net interest expense	8,577	7,711
Net income	\$ 33,849	\$ 22,875
Earnings per share:		
Basic	\$ 0.70	\$ 0.48
Diluted	0.70	0.48
Weighted average shares outstanding:		
Basic	48,017	47,969
Diluted	48,017	47,969
Dividends declared per share of common stock	\$ 0.1800	\$ 0.1725

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited (In thousands, except per share data)

For the nine months ended	September 30, 2017	September 30, 2016
Operating revenue	\$ 504,899	\$ 458,440
Operating expenses:		
Operations:		
Water production costs	181,460	168,833
Administrative and general	73,931	75,037
Other operations	55,660	57,766
Maintenance	16,877	17,542
Depreciation and amortization	57,650	47,772
Income taxes	26,099	19,192
Property and other taxes	18,717	17,439
Total operating expenses	430,394	403,581
Net operating income	74,505	54,859
Other income and expenses:		
Non-regulated revenue	10,743	10,589
Non-regulated expenses	(6,244)	(8,306)
Allowance for equity funds used during construction	2,763	—
Income tax expense on other income and expenses	(2,947)	(914)
Net other income	4,315	1,369
Interest expense:		
Interest expense	27,073	24,984
Allowance for borrowed funds used during construction	(1,765)	(2,341)
Net interest expense	25,308	22,643
Net income	\$ 53,512	\$ 33,585
Earnings per share:		
Basic	\$ 1.11	\$ 0.70
Diluted	1.11	0.70
Weighted average shares outstanding:		
Basic	48,007	47,949
Diluted	48,007	47,952
Dividends declared per share of common stock	\$ 0.5400	\$ 0.5175

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited (In thousands)

	September 30, 2017	September 30, 2016
For the nine months ended:		
Operating activities:		
Net income	\$ 53,512	\$ 33,585
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	59,016	48,946
Change in value of life insurance contracts	(1,871)	(915)
Allowance for equity funds used during construction	(2,763)	—
Changes in operating assets and liabilities:		
Receivables and unbilled revenue	(52,951)	(13,352)
Accounts payable	6,712	8,940
Other current assets	(4,643)	(1,743)
Other current liabilities	10,939	13,982
Other changes in noncurrent assets and liabilities	41,837	34,386
Net cash provided by operating activities	109,788	123,829
Investing activities:		
Utility plant expenditures	(180,442)	(166,406)
Life insurance proceeds	1,558	495
Purchase of life insurance contracts	(3,948)	(2,710)
Change in restricted cash	(679)	(685)
Net cash used in investing activities	(183,511)	(169,306)
Financing activities:		
Short-term borrowings	185,000	105,100
Repayment of short-term borrowings	(87,000)	(81,615)
Proceeds from long-term debt, net of issuance costs of \$0 for 2017 and \$177 for 2016	—	49,823
Repayment of long-term debt	(2,797)	(2,865)
Advances and contributions in aid of construction	14,964	18,186
Refunds of advances for construction	(6,316)	(5,194)
Repurchase of common stock	(1,359)	(637)
Dividends paid	(25,920)	(24,807)
Net cash provided by financing activities	76,572	57,991
Change in cash and cash equivalents	2,849	12,514
Cash and cash equivalents at beginning of period	25,492	8,837
Cash and cash equivalents at end of period	\$ 28,341	\$ 21,351
Supplemental information:		
Cash paid for interest (net of amounts capitalized)	\$ 17,287	\$ 13,889
Income tax refund	\$ (1,697)	\$ —
Supplemental disclosure of non-cash activities:		
Accrued payables for investments in utility plant	\$ 31,750	\$ 26,767
Utility plant contribution by developers	13,022	12,104
See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements		

CALIFORNIA WATER SERVICE GROUP

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2017

Dollar amounts in thousands unless otherwise stated

Note 1. Organization and Operations and Basis of Presentation

California Water Service Group (the Company) is a holding company that provides water utility and other related services in California, Washington, New Mexico and Hawaii through its wholly-owned subsidiaries. California Water Service Company (Cal Water), Washington Water Service Company (Washington Water), New Mexico Water Service Company (New Mexico Water), and Hawaii Water Service Company, Inc. (Hawaii Water) provide regulated utility services under the rules and regulations of their respective state's regulatory commissions (jointly referred to herein as the Commissions). CWS Utility Services and HWS Utility Services LLC provide non-regulated water utility and utility-related services.

The Company operates in one reportable segment, providing water and related utility services.

Basis of Presentation

The unaudited condensed consolidated interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC) and therefore do not contain all of the information and footnotes required by GAAP and the SEC for annual financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016, included in its annual report on Form 10-K as filed with the SEC on February 23, 2017.

The preparation of the Company's unaudited condensed consolidated interim financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses for the periods presented. These include, but are not limited to, estimates and assumptions used in determining the Company's regulatory asset and liability balances based upon probability assessments of regulatory recovery, revenues earned but not yet billed, asset retirement obligations, allowance for doubtful accounts, pension and other employee benefit plan liabilities, and income tax-related assets and liabilities. Actual results could differ from these estimates.

In the opinion of management, the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of normal recurring transactions that are necessary to provide a fair presentation of the results for the periods covered. The results for interim periods are not necessarily indicative of the results for any future period.

Due to the seasonal nature of the water business, the results for interim periods are not indicative of the results for a 12-month period. Revenue and income are generally higher in the warm, dry summer months when water usage and sales are greater. Revenue and income are generally lower in the winter months when cooler temperatures and rainfall curtail water usage and sales.

Note 2. Summary of Significant Accounting Policies

Revenue

Revenue generally includes monthly cycle customer billings for regulated water and wastewater services at rates authorized by the Commissions (plus an estimate for water used between the customer's last meter reading and the end of the accounting period) and billings to certain non-regulated customers at rates authorized by contract with government agencies.

The Company's regulated water and wastewater revenue requirements are authorized by the Commissions in the states in which they operate. The revenue requirements are intended to provide the Company a reasonable opportunity to recover its operating costs and earn a return on investments.

For metered customers, Cal Water recognizes revenue from rates which are designed and authorized by the California Public Utilities Commission (CPUC). Under the Water Revenue Adjustment Mechanism (WRAM), Cal Water records the adopted level of volumetric revenues, which would include recovery of cost of service and a return on investments, as

established by the CPUC for metered accounts. The adopted volumetric revenue considers the seasonality of consumption of water based upon historical averages. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts is recorded as a component of revenue with an offsetting entry to a regulatory asset or liability balancing account (tracked individually for each Cal Water district) subject to certain criteria under the accounting guidance for regulated operations. The variance amount represents amounts that will be billed or refunded to customers in the future. In addition to volumetric revenues, the revenue requirements approved by the CPUC include service charges, flat rate charges, and other items not subject to the WRAM.

Cost-recovery rates are designed to permit full recovery of certain costs allowed to be recovered by the Commissions. Cost-recovery rates such as the Modified Cost Balancing Account (MCBA) provide for recovery of adopted expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. In addition, cost-recovery rates include recovery of costs related to water conservation programs and certain other operating expenses adopted by the CPUC. Variances (which include the effects of changes in both rates and volumes for the MCBA) between adopted and actual costs are recorded as a component of revenue, as the amount of such variances will be recovered from or refunded to customers in the future. Cost-recovery expenses are generally recognized when expenses are incurred with no markup for return on investments or profit.

The balances in the WRAM and MCBA assets and liabilities accounts will fluctuate on a monthly basis depending upon the variance between adopted and actual results. The recovery or refund of the WRAM is netted against the MCBA over- or under-recovery for the corresponding district and the deferred net balances are interest bearing at the current 90 day commercial paper rate. Subsequent to calendar year-end, Cal Water files with the CPUC to refund or collect the balance in the accounts. The majority of under-collected net WRAM and MCBA receivable balances are collected over 12 or 18 months. Cal Water defers net WRAM and MCBA operating revenues and associated costs whenever the net receivable balances are estimated to be collected more than 24 months after the respective reporting period in which it was recorded. The deferred net WRAM and MCBA revenue and associated costs were determined using forecasts of customer consumption trends in future reporting periods and the estimated timing of when the CPUC will authorize Cal Water's filings to recover unbilled balances. Deferred revenues and associated costs are recorded in the periods when the collection is within 24 months of the respective reporting period.

Customers' meter reads occur on various business days throughout the month. As a result, there are unmetered or unbilled customer usage each month. The estimated unbilled revenue for monthly unmetered customer usage is recorded using the number of unbilled days for that month and average daily customer billing rate for the previous month. The average daily customer billing rate for the previous month fluctuates depending on customer usage. Estimated unbilled revenue is not included in the WRAM until it is billed.

Flat rate customers are billed in advance at the beginning of the service period. The revenue is prorated so that the portion of revenue applicable to the current period is included in that period's revenue, with the balance recorded as unearned revenue on the balance sheet and recognized as revenue when earned in the subsequent accounting period. The unearned revenue liability was \$0.7 million and \$0.8 million as of September 30, 2017 and December 31, 2016, respectively. This liability is included in "accrued expenses and other liabilities" on the condensed consolidated balance sheets.

Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC) represents the capitalized cost of funds used to finance the construction of the utility plant. In general, AFUDC is applied to Cal Water construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction, contributions in aid of construction, or applicable state-revolving fund loans. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant

is depreciated. Cal Water was authorized by the CPUC to record AFUDC on construction work in progress effective January 1, 2017. Prior to January 1, 2017, the CPUC authorized Cal Water to only record capitalized interest on borrowed funds. Cal Water previously reported the amounts authorized as capitalized interest and a reduction to interest expense. The amount of AFUDC related to equity funds and to borrowed funds for the three and nine month periods ended September 30, 2017 and 2016 are shown in the tables below:

	Three Months Ended September 30		
	2017	2016	Change
Allowance for equity funds used during construction	\$1,105	\$—	\$1,105
Allowance for borrowed funds used during construction	707	774	(67)
Total	\$1,812	\$774	\$1,038

	Nine Months Ended September 30		
	2017	2016	Change
Allowance for equity funds used during construction	\$2,763	\$—	\$2,763
Allowance for borrowed funds used during construction	1,765	2,341	(576)
Total	\$4,528	\$2,341	\$2,187

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with maturities of three months or less. Cash and cash equivalents was \$28.3 million and \$25.5 million as of September 30, 2017 and December 31, 2016, respectively. Restricted cash was presented on the condensed consolidated balance sheet in “taxes, prepaid expenses and other assets” and was \$1.1 million and \$0.4 million as of September 30, 2017 and December 31, 2016, respectively.

Adoption of New Accounting Standards

In March 2016, the Financial Accounting Standards Board (FASB) issued updated accounting guidance on simplifying the accounting for share-based payments (Accounting Standards Update (ASU) 2016-09), which includes the accounting for share-based payment transactions, the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted and implemented the changes to accounting for share-based payments on January 1, 2017 and applied the requirements retrospectively on the statement of cash flows for all periods presented. The Company's forfeiture policy did not change and the Company continues to account for forfeitures when they occur. For the nine month period ended September 30, 2017, the Company recorded \$0.5 million of income tax benefits in excess of compensation costs for share-based compensation which reduced the effective tax rate. The tax-related cash flows resulting from share-based payments were reported as operating activities and the associated cash paid by the company for employee tax withholding transactions were reported as financing activities on the consolidated statement of cash flows.

The following table shows the effect of the accounting change to the Condensed Consolidated Statements of Cash Flows for the nine month period ended September 30, 2016:

	Nine Months Ended September 30, 2016		
Cash Flow Classification	As Reported on Form 10-Q	Adjusted Balance on Form 10-Q	Increase (Decrease) from Retrospective Adoption
Other changes in noncurrent assets and liabilities	\$33,749	\$34,386	\$ 637
Net cash provided by operating activities	123,192	123,829	637
Repurchase of common stock	—	(637)	(637)
Net cash provided by financing activities	58,628	57,991	(637)

New Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which amends the existing revenue recognition guidance. In August 2015, the FASB deferred the effective date of this amendment for public companies by one year to January 1, 2018, with early adoption permitted as of the original effective date of January 1, 2017. The Company has substantially completed an evaluation of the new revenue standard and intends to implement the standard using the modified retrospective method and does not expect ASU 2014-09 to materially impact the timing or recognition of revenue related to the sale and delivery of water to its customers, which is a significant percentage of the Company's revenue. The Company is in the process of finalizing its evaluation of the impact ASU 2014-09 has on its related revenue disclosures and internal controls.

In February 2016, the FASB issued ASU 2016-02, Leases. This update changes the accounting treatment of leases and related disclosure requirements. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company will adopt the standard using the modified retrospective method for its existing leases and is currently evaluating the impact of adopting the new lease standard on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments. This update adds and clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017 and early adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements and related disclosures.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The update requires employers to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service cost/credit and actuarial gain/loss, and settlement and curtailment effects, are to be presented as non-operating items. Employers will have to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The standard only allows the service cost component to be eligible for capitalization. ASU 2017-07 is effective for annual periods after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements and related disclosures. The adoption of this guidance will change the Company's financial statement presentation of net benefit costs. However, based on current regulatory authorization, the changes required by the standard are not expected to materially impact the results of operations.

Note 3. Stock-based Compensation

Equity Incentive Plan

During the nine months ended September 30, 2017 and 2016, the Company granted annual Restricted Stock Awards (RSAs) of 48,717 and 72,317, respectively, to officers and directors of the Company. During those same periods, 17,466 and 13,319 RSAs were canceled, respectively. During the three months ended September 30, 2017 and 2016, no RSAs were granted and 3,280 and 2,719 RSAs were canceled, respectively. Employee RSAs granted in 2017 and 2016 vest over 36 months. Director RSAs generally vest at the end of 12 months. During the first nine months of 2017 and 2016, the RSAs granted were valued at \$36.75 and \$25.17 per share, respectively, based upon the fair value of the Company's common stock on the date of grant.

During the nine months ended September 30, 2017 and 2016, the Company granted 31,389 and 43,659 performance-based Restricted Stock Unit Awards (RSUs), respectively, to officers. During those same periods, the Company issued 38,709 and 28,424 RSUs, respectively, and canceled 19,735 and 6,602 RSUs, respectively. During the three months ended September 30, 2017 and 2016, the Company did not grant, issue or cancel any RSUs. Each RSU award reflects a target number of shares that may be issued to the award recipient. The 2017 and 2016 awards may be earned upon completion of the three-year performance period and are recognized as expense ratably over the period using a fair value of \$36.75 per share and \$25.17 per share, respectively, and an estimate of RSUs earned during the period. The Company has recorded compensation costs for the RSAs and RSUs in administrative and general operating expenses in the amount of \$2.3 million and \$2.1 million for the nine months ended September 30, 2017 and 2016, respectively.

Note 4. Equity

The Company's changes in total common stockholders' equity for the nine months ended September 30, 2017 were as follows:

	Total Common Stockholders' Equity
Balance at December 31, 2016	\$ 659,471
Common stock issued	—
Share-based compensation expense	660
Common stock dividends declared	(25,920)
Net income	53,512
Balance at September 30, 2017	\$ 687,723

Note 5. Earnings Per Share

The computations of basic and diluted earnings per share are noted below. Basic earnings per share is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts were exercised or converted into common stock. RSAs are included in the weighted average common shares outstanding because the shares have all the same voting and dividend rights as issued and unrestricted common stock. RSUs are not included in diluted shares for financial reporting until authorized by the Compensation & Organization Committee of the Board of Directors.

There were no shares of Stock Appreciation Rights (SARs) outstanding as of September 30, 2017 and 2016, respectively. All the SARs were dilutive when they were outstanding during the period, as shown in the tables below.

	Three Months Ended September 30 2017 2016 (In thousands, except per share data)	
Net income available to common stockholders	\$33,849	\$22,875
Weighted average common shares outstanding, basic	48,017	47,969
Dilutive SARs (treasury method)	—	—
Weighted average common shares outstanding, dilutive	48,017	47,969
Earnings per share - basic	\$0.70	\$0.48
Earnings per share - diluted	\$0.70	\$0.48

Nine Months
Ended September
30
2017 2016
(In thousands,
except per share
data)

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Net income available to common stockholders	\$53,512	\$33,585
Weighted average common shares outstanding, basic	48,007	47,949
Dilutive SARs (treasury method)	—	3
Weighted average common shares outstanding, dilutive	48,007	47,952
Earnings per share - basic	\$1.11	\$0.70
Earnings per share - diluted	\$1.11	\$0.70

Note 6. Pension Plan and Other Postretirement Benefits

The Company provides a qualified, defined-benefit, non-contributory pension plan for substantially all employees. The Company makes annual contributions to fund the amounts accrued for in the qualified pension plan. The Company also

maintains an unfunded, non-qualified, supplemental executive retirement plan. The costs of the plans are charged to expense or are capitalized in utility plant as appropriate.

The Company offers medical, dental, vision, and life insurance benefits for retirees and their spouses and dependents. Participants are required to pay a premium, which offsets a portion of the cost.

Cash contributions by the Company related to pension plans were \$22.2 million and \$20.6 million for the nine months ended September 30, 2017 and 2016, respectively. Cash contributions by the Company related to other postretirement benefit plans were \$2.3 million and \$6.7 million for the nine months ended September 30, 2017 and 2016, respectively. The total 2017 estimated cash contribution to the pension plans is \$29.8 million and to the other postretirement benefit plans is \$9.0 million.

The following table lists components of net periodic benefit costs for the pension plans and other postretirement benefits. The data listed under “pension plan” includes the qualified pension plan and the non-qualified supplemental executive retirement plan. The data listed under “other benefits” is for all other postretirement benefits.

	Three Months Ended September 30			
	Pension Plan		Other Benefits	
	2017	2016	2017	2016
Service cost	\$6,122	\$5,594	\$2,169	\$1,045
Interest cost	5,861	5,764	1,491	625
Expected return on plan assets	(6,031)	(5,462)	(1,218)	(1,005)
Amortization of prior service cost	1,445	1,555	11	10
Recognized net actuarial loss	1,881	1,743	649	(482)
Net periodic benefit cost	\$9,278	\$9,194	\$3,102	\$193

	Nine Months Ended September 30			
	Pension Plan		Other Benefits	
	2017	2016	2017	2016
Service cost	\$17,851	\$15,728	\$6,207	\$5,653
Interest cost	17,442	16,670	4,472	4,225
Expected return on plan assets	(18,090)	(16,370)	(3,653)	(3,097)
Amortization of prior service cost	4,336	4,664	32	32
Recognized net actuarial loss	5,386	4,329	1,947	2,041
Net periodic benefit cost	\$26,925	\$25,021	\$9,005	\$8,854

Note 7. Short-term and Long-term Borrowings

In March 2016, Cal Water issued \$50.0 million of First Mortgage Bonds, consisting of \$40.0 million of 4.41% series SSS maturing April 16, 2046 and \$10.0 million of 4.61% series TTT maturing April 14, 2056. Cash proceeds of approximately \$49.7 million, net of \$0.3 million debt issuance costs, were received. Cal Water used a portion of the net proceeds from the offering to repay outstanding borrowings on the Company and Cal Water lines of credit of \$48.6 million.

Both short-term unsecured credit agreements contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, these unsecured credit agreements contain financial covenants governing the Company and its subsidiaries' consolidated total capitalization ratio and interest coverage ratio.

The outstanding borrowings on the Company lines of credit were \$55.1 million and \$57.1 million as of September 30, 2017 and December 31, 2016, respectively. There were \$140.0 million and \$40.0 million borrowings on the Cal Water lines of credit as of September 30, 2017 and December 31, 2016, respectively. The average borrowing rate for borrowings on the Company and Cal Water lines of credit during the nine months ended September 30, 2017 was 1.97% compared to 1.30% for the same period last year.

Note 8. Income Taxes

The Company accounts for income taxes under the provisions of ASU 2009-06, Income Taxes (Topic 740). The Company adjusts its effective tax rate each quarter to be consistent with the estimated annual effective tax rate. The Company also records the tax effect of unusual or infrequently occurring discrete items.

The provision for income taxes consists of the following:

	Three Months	
	Ended September	
	30	
	2017	2016
Income tax provision	\$18,189	\$13,595

	Nine Months	
	Ended September	
	30	
	2017	2016
Income tax provision	\$29,046	\$20,105

The \$4.6 million increase in the income tax provision for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 was due primarily to an increase in the Company's operating income in 2017 as compared to 2016.

The \$8.9 million increase in the income tax provision for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 was due primarily to an increase in the Company's operating income in 2017 as compared to 2016, which was partially offset by a \$0.5 million tax benefit associated with the settlement of equity awards in 2017. The Company's fiscal year 2017 effective tax rate is estimated to be 37%.

The Company had unrecognized tax benefits of approximately \$10.2 million and \$10.5 million as of September 30, 2017 and December 31, 2016, respectively. Included in the balance of unrecognized tax benefits as of September 30, 2017 and December 31, 2016 is approximately \$1.9 million and \$2.2 million, respectively, of tax benefits that, if recognized, would result in an adjustment to the Company's effective tax rate. The Company does not expect its

unrecognized tax benefits to change significantly within the next 12 months.

Note 9. Regulatory Assets and Liabilities

Regulatory assets and liabilities were comprised of the following as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Regulatory Assets		
Pension and retiree group health	\$ 188,386	\$ 188,880
Property-related temporary differences (tax benefits flowed through to customers)	94,144	92,099
Other accrued benefits	26,540	27,503
Net WRAM and MCBA long-term accounts receivable	34,735	16,148
Asset retirement obligations, net	16,832	15,812
Interim rates long-term accounts receivable	4,616	4,605
Tank coating	10,114	8,452
Health care balancing account	412	1,000
Pension balancing account	1,684	—
Other regulatory assets	2,421	1,431
Total Regulatory Assets	\$ 379,884	\$ 355,930
Regulatory Liabilities		
Future tax benefits due to customers	\$ 33,375	\$ 33,231
Health care balancing account	6,006	—
Conservation program	2,312	584
Pension balancing account	383	695
Net WRAM and MCBA long-term payable	710	611
Other regulatory liabilities	1,251	3,614
Total Regulatory Liabilities	\$ 44,037	\$ 38,735

Short-term regulatory assets and liabilities are excluded from the above table. The short-term regulatory assets were \$31.4 million as of September 30, 2017 and \$30.3 million as of December 31, 2016. As of September 30, 2017, the short-term regulatory assets were primarily net WRAM and MCBA accounts receivable, 2012 General Rate Case (GRC) health cost balancing account receivable, 2014-2015 drought expense recovery, and East Los Angeles Memorandum Account receivable. As of December 31, 2016, the short-term regulatory assets were primarily net WRAM and MCBA accounts receivable, 2012 GRC health cost balancing account receivable, 2014-2015 drought

expense recovery, interim rate memorandum account receivable, and East Los Angeles Memorandum Account receivable.

The short-term portions of regulatory liabilities were \$4.5 million as of September 30, 2017 and \$4.8 million as of December 31, 2016. As of September 30, 2017, the short-term regulatory liabilities were primarily net WRAM and MCBA liability balances, refund balance from an interim rates true up authorized prior to the 2009 GRC, and net refund balances to customers for the pension and conservation programs from the 2012 GRC. As of December 31, 2016, the short-term regulatory liabilities were primarily net WRAM and MCBA liability balances and net refund balances to customers for the pension and conservation programs from the 2012 GRC.

Note 10. Commitments and Contingencies

Commitments

The Company has significant commitments to lease certain office spaces and water systems and to purchase water from water wholesalers. These commitments are described in Form 10-K for the year ended December 31, 2016. As of September 30, 2017, there were no significant changes from December 31, 2016.

Contingencies

Groundwater Contamination

The Company has undertaken litigation against third parties to recover past and anticipated costs related to groundwater contamination in our service areas. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. The CPUC's general policy requires all proceeds from groundwater contamination litigation to be used first to pay transactional expenses, then to make ratepayers whole for water treatment costs to comply with the CPUC's water quality standards. The CPUC allows for a risk-based consideration of contamination proceeds which exceed the costs of the remediation described above and may result in some sharing of proceeds with the shareholder, determined on a case by case basis. The CPUC has authorized various memorandum accounts that allow the Company to track significant litigation costs to request recovery of these costs in future filings and uses of proceeds to comply with CPUC's general policy.

Other Legal Matters

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. The status of each significant matter is reviewed and assessed for potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, a liability is accrued for the estimated loss in accordance with the accounting standards for contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe when taking into account existing reserves the ultimate resolution of these matters will materially affect the Company's financial position, results of operations, or cash flows. As of September 30, 2017 and December 31, 2016, the Company recognized a liability of \$6.1 million and \$6.0 million, respectively, for known legal matters. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. Any settlement in excess of the cost to litigate is accounted for on a case by case basis, dependent on the nature of the settlement.

Note 11. Fair Value of Financial Assets and Liabilities

The accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires certain disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance. The three levels in the hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Specific valuation methods include the following:

Accounts receivable and accounts payable carrying amounts approximated the fair value because of the short-term maturity of the instruments.

Long-term debt fair values were estimated using the published quoted market price, if available, or the discounted cash flow analysis, based on the current rates available using a risk-free rate (a U.S. Treasury securities yield curve) plus a risk premium of 1.70%.

Advances for construction fair values were estimated using broker quotes from companies that frequently purchase these investments.

September 30, 2017				
	Cost	Fair Value		
		Level 1	Level 2	Level 3 Total
Long-term debt, including current maturities	\$555,715	—	\$631,447	— \$631,447
Advances for construction	182,820	—	75,717	— 75,717
Total	\$738,535	\$—	\$707,164	\$— \$707,164

December 31, 2016				
	Cost	Fair Value		
		Level 1	Level 2	Level 3 Total
Long-term debt, including current maturities	\$557,953	\$—	\$630,510	\$— \$630,510
Advances for construction	182,448	—	74,460	— 74,460
Total	\$740,401	\$—	\$704,970	\$— \$704,970

Note 12. Condensed Consolidating Financial Statements

On April 17, 2009, Cal Water issued \$100.0 million aggregate principal amount of 5.875% First Mortgage Bonds due 2019, and on November 17, 2010, Cal Water issued \$100.0 million aggregate principal amount of 5.500% First Mortgage Bonds due 2040, all of which are fully and unconditionally guaranteed by the Company. As a result of these guarantee arrangements, the Company is required to present the following condensed consolidating financial information. The investments in affiliates are accounted for and presented using the “equity method” of accounting.

The following tables present the condensed consolidating balance sheets as of September 30, 2017 and December 31, 2016, the condensed consolidating statements of income for the three and nine months ended September 30, 2017 and 2016, and the condensed consolidating statements of cash flows for the nine months ended September 30, 2017 and 2016 of (i) California Water Service Group, the guarantor of the First Mortgage Bonds and the parent company; (ii) California Water Service Company, the issuer of the First Mortgage Bonds and a 100% owned consolidated subsidiary of California Water Service Group; and (iii) the other 100% owned non-guarantor consolidated subsidiaries of California Water Service Group. No other subsidiary of the Company guarantees the securities. The condensed consolidating statement of cash flows for the nine months ended September 30, 2016 reflects the retrospective adoption of ASU 2016-09 (refer to Note 2 Summary of Significant Accounting Policies for more details).

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET

As of September 30, 2017

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	\$ 1,321	\$ 2,695,106	\$ 203,435	\$ (7,196)	\$ 2,892,666
Less accumulated depreciation and amortization	(896)	(858,386)	(53,448)	1,988	(910,742)
Net utility plant	425	1,836,720	149,987	(5,208)	1,981,924
Current assets:					
Cash and cash equivalents	2,722	17,851	7,768	—	28,341
Receivables and unbilled revenue	—	127,858	5,398	—	133,256
Receivables from affiliates	22,568	703	261	(23,532)	—
Other current assets	184	17,665	1,039	—	18,888
Total current assets	25,474	164,077	14,466	(23,532)	180,485
Other assets:					
Regulatory assets	—	376,041	3,843	—	379,884
Investments in affiliates	693,766	—	—	(693,766)	—
Long-term affiliate notes receivable	24,677	—	—	(24,677)	—
Other assets	217	56,886	3,912	(204)	60,811
Total other assets	718,660	432,927	7,755	(718,647)	440,695
TOTAL ASSETS	\$ 744,559	\$ 2,433,724	\$ 172,208	\$ (747,387)	\$ 2,603,104
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders' equity	\$ 687,723	\$ 620,892	\$ 78,143	\$ (699,035)	\$ 687,723
Affiliate long-term debt	—	—	24,677	(24,677)	—
Long-term debt, less current maturities	—	518,802	898	—	519,700
Total capitalization	687,723	1,139,694	103,718	(723,712)	1,207,423
Current liabilities:					
Current maturities of long-term debt	—	35,606	409	—	36,015
Short-term borrowings	55,100	140,000	—	—	195,100
Payables to affiliates	—	1,257	22,275	(23,532)	—
Accounts payable	—	86,374	3,020	—	89,394
Accrued expenses and other liabilities	154	55,607	4,091	—	59,852
Total current liabilities	55,254	318,844	29,795	(23,532)	380,361
Unamortized investment tax credits	—	1,798	—	—	1,798
Deferred income taxes	1,582	325,619	2,448	(143)	329,506
Pension and postretirement benefits other than pensions	—	227,819	—	—	227,819
Regulatory liabilities and other	—	87,714	3,292	—	91,006
Advances for construction	—	182,298	522	—	182,820
Contributions in aid of construction	—	149,938	32,433	—	182,371
TOTAL CAPITALIZATION AND LIABILITIES	\$ 744,559	\$ 2,433,724	\$ 172,208	\$ (747,387)	\$ 2,603,104

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET

As of December 31, 2016

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	\$ 1,318	\$ 2,519,785	\$ 203,433	\$ (7,197)	\$ 2,717,339
Less accumulated depreciation and amortization	(826)	(805,992)	(53,163)	1,919	(858,062)
Net utility plant	492	1,713,793	150,270	(5,278)	1,859,277
Current assets:					
Cash and cash equivalents	5,216	13,215	7,061	—	25,492
Receivables and unbilled revenue	—	98,850	4,173	—	103,023
Receivables from affiliates	19,566	3,608	8	(23,182)	—
Other current assets	80	12,442	1,032	—	13,554
Total current assets	24,862	128,115	12,274	(23,182)	142,069
Other assets:					
Regulatory assets	—	352,139	3,791	—	355,930
Investments in affiliates	666,525	—	—	(666,525)	—
Long-term affiliate notes receivable	25,744	—	—	(25,744)	—
Other assets	376	50,361	3,765	(33)	54,469
Total other assets	692,645	402,500	7,556	(692,302)	410,399
TOTAL ASSETS	\$ 717,999	\$ 2,244,408	\$ 170,100	\$ (720,762)	\$ 2,411,745
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders' equity	\$ 659,471	\$ 595,003	76,833	\$ (671,836)	\$ 659,471
Affiliate long-term debt	—	—	25,744	(25,744)	—
Long-term debt, less current maturities	—	530,850	895	—	531,745
Total capitalization	659,471	1,125,853	103,472	(697,580)	1,191,216
Current liabilities:					
Current maturities of long-term debt	—	25,657	551	—	26,208
Short-term borrowings	57,100	40,000	—	—	97,100
Payables to affiliates	—	539	22,643	(23,182)	—
Accounts payable	—	74,998	2,815	—	77,813
Accrued expenses and other liabilities	88	47,232	1,789	—	49,109
Total current liabilities	57,188	188,426	27,798	(23,182)	250,230
Unamortized investment tax credits	—	1,798	—	—	1,798
Deferred income taxes	1,340	296,781	803	—	298,924
Pension and postretirement benefits other than pensions	—	222,691	—	—	222,691
Regulatory and other liabilities	—	80,518	3,130	—	83,648
Advances for construction	—	181,907	541	—	182,448
Contributions in aid of construction	—	146,434	34,356	—	180,790
TOTAL CAPITALIZATION AND LIABILITIES	\$ 717,999	\$ 2,244,408	\$ 170,100	\$ (720,762)	\$ 2,411,745

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME

For the three months ended September 30, 2017

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$ 199,002	\$ 12,729	\$ —	\$ 211,731
Operating expenses:					
Operations:					
Water production costs	—	73,061	2,200	—	75,261
Administrative and general	—	22,362	2,524	—	24,886
Other operations	—	18,979	2,356	(127)	21,208
Maintenance	—	5,729	328	—	6,057
Depreciation and amortization	21	18,115	1,117	(22)	19,231
Income tax (benefit) expense	(136)	16,190	1,028	266	17,348
Property and other taxes	—	5,680	864	—	6,544
Total operating (income) expenses	(115)	160,116	10,417	117	170,535
Net operating income	115	38,886	2,312	(117)	41,196
Other income and expenses:					
Non-regulated revenue	505	3,218	450	(631)	3,542
Non-regulated expenses	—	(2,151)	(425)	—	(2,576)
Allowance for equity funds used during construction	—	1,105	—	—	1,105
Income tax expense on other income and expenses	(206)	(885)	(7)	257	(841)
Total other income	299	1,287	18	(374)	1,230
Interest:					
Interest expense	313	8,951	525	(505)	9,284
Allowance for borrowed funds used during construction	—	(684)	(23)	—	(707)
Net interest expense	313	8,267	502	(505)	8,577
Equity earnings of subsidiaries	33,748	—	—	(33,748)	—
Net income	\$ 33,849	\$ 31,906	\$ 1,828	\$ (33,734)	\$ 33,849

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME

For the three months ended September 30, 2016

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$ 173,223	\$ 11,045	\$ —	\$ 184,268
Operating expenses:					
Operations:					
Water production costs	—	68,045	2,130	—	70,175
Administrative and general	—	21,679	2,165	—	23,844
Other operations	—	18,037	1,692	(168)	19,561
Maintenance	—	5,322	223	—	5,545
Depreciation and amortization	57	14,777	1,074	(24)	15,884
Income tax (benefit) expense	(105)	12,165	920	267	13,247
Property and other taxes	—	5,182	775	—	5,957
Total operating (income) expenses	(48)	145,207	8,979	75	154,213
Net operating income	48	28,016	2,066	(75)	30,055
Other income and expenses:					
Non-regulated revenue	464	3,024	541	(632)	3,397
Non-regulated expenses	—	(2,170)	(347)	—	(2,517)
Income tax expense on other income and expenses	(189)	(345)	(73)	258	(349)
Total other income	275	509	121	(374)	531
Interest:					
Interest expense	201	8,259	488	(463)	8,485
Less: capitalized interest	—	(759)	(15)	—	(774)
Net interest expense	201	7,500	473	(463)	7,711
Equity earnings of subsidiaries	22,753	—	—	(22,753)	—
Net income	\$ 22,875	\$ 21,025	\$ 1,714	\$ (22,739)	\$ 22,875

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME

For the nine months ended September 30, 2017

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$ 473,518	\$ 31,381	\$ —	\$ 504,899
Operating expenses:					
Operations:					
Water production costs	—	175,339	6,121	—	181,460
Administrative and general	—	65,985	7,946	—	73,931
Other operations	—	50,108	5,931	(379)	55,660
Maintenance	—	16,144	733	—	16,877
Depreciation and amortization	70	54,328	3,320	(68)	57,650
Income tax (benefit) expense	(362)	24,344	1,331	786	26,099
Property and other taxes	(4)	16,407	2,314	—	18,717
Total operating (income) expenses	(296)	402,655	27,696	339	430,394
Net operating income	296	70,863	3,685	(339)	74,505
Other income and expenses:					
Non-regulated revenue	1,482	9,822	1,300	(1,861)	10,743
Non-regulated expenses	—	(5,326)	(918)	—	(6,244)
Allowance for equity funds used during construction	—	2,763	—	—	2,763
Income tax expense on other income and expenses	(604)	(2,958)	(143)	758	(2,947)
Net other income	878	4,301	239	(1,103)	4,315
Interest:					
Interest expense	823	26,216	1,516	(1,482)	27,073
Allowance for borrowed funds used during construction	—	(1,702)	(63)	—	(1,765)
Net interest expense	823	24,514	1,453	(1,482)	25,308
Equity earnings of subsidiaries	53,161	—	—	(53,161)	—
Net income	\$ 53,512	\$ 50,650	\$ 2,471	\$ (53,121)	\$ 53,512

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME

For the nine months ended September 30, 2016

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$ —	\$428,592	\$ 29,848	\$ —	\$ 458,440
Operating expenses:					
Operations:					
Water production costs	—	162,933	5,900	—	168,833
Administrative and general	—	67,289	7,748	—	75,037
Other operations	—	53,128	5,016	(378)	57,766
Maintenance	—	16,854	688	—	17,542
Depreciation and amortization	171	44,427	3,246	(72)	47,772
Income tax (benefit) expense	(292)	17,356	1,366	762	19,192
Property and other taxes	—	15,241	2,198	—	17,439
Total operating (income) expenses	(121)	377,228	26,162	312	403,581
Net operating income	121	51,364	3,686	(312)	54,859
Other income and expenses:					
Non-regulated revenue	1,390	9,659	1,338	(1,798)	10,589
Non-regulated expenses	—	(7,422)	(884)	—	(8,306)
Income tax expense on other income and expenses	(566)	(909)	(172)	733	(914)
Net other income	824	1,328	282	(1,065)	1,369
Interest:					
Interest expense	547	24,421	1,435	(1,419)	24,984
Less: capitalized interest	—	(2,293)	(48)	—	(2,341)
Net interest expense	547	22,128	1,387	(1,419)	22,643
Equity earnings of subsidiaries	33,187	—	—	(33,187)	—
Net income	\$33,585	\$30,564	\$ 2,581	\$ (33,145)	\$ 33,585

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2017

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income	\$53,512	\$50,650	\$ 2,471	\$ (53,121)	\$ 53,512
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity earnings of subsidiaries	(53,161)	—	—	53,161	—
Dividends received from affiliates	25,920	—	—	(25,920)	—
Depreciation and amortization	70	55,623	3,392	(69)	59,016
Changes in value of life insurance contracts	—	(1,871)	—	—	(1,871)
Allowance for equity funds used during construction	—	(2,763)	—	—	(2,763)
Changes in operating assets and liabilities	(38)	(40,941)	1,036	—	(39,943)
Other changes in noncurrent assets and liabilities	2,420	37,125	2,263	29	41,837
Net cash provided by operating activities	28,723	97,823	9,162	(25,920)	109,788
Investing activities:					
Utility plant expenditures	(4)	(175,234)	(5,204)	—	(180,442)
Changes in affiliate advances	(334)	2,905	(287)	(2,284)	—
Issuance of affiliate short-term borrowings	(2,610)	—	—	2,610	—
Reduction of affiliates long-term debt	1,010	—	—	(1,010)	—
Life insurance proceeds	—	1,558	—	—	1,558
Purchase of life insurance contracts	—	(3,948)	—	—	(3,948)
Changes in restricted cash	—	(679)	—	—	(679)
Net cash used in investing activities	(1,938)	(175,398)	(5,491)	(684)	(183,511)
Financing Activities:					
Short-term borrowings	—	185,000	—	—	185,000
Repayment of short-term borrowings	(2,000)	(85,000)	—	—	(87,000)
Changes in affiliate advances	—	718	(3,002)	2,284	—
Proceeds from affiliate short-term borrowings	—	—	2,610	(2,610)	—
Repayment of affiliates long-term borrowings	—	—	(1,010)	1,010	—
Repayment of long-term debt	—	(2,336)	(461)	—	(2,797)
Advances and contributions in aid of construction	—	14,900	64	—	14,964
Refunds of advances for construction	—	(6,311)	(5)	—	(6,316)
Repurchase of common stock	(1,359)	—	—	—	(1,359)
Dividends paid to non-affiliates	(25,920)	—	—	—	(25,920)
Dividends paid to affiliates	—	(24,760)	(1,160)	25,920	—
Net cash (used in) provided by financing activities	(29,279)	82,211	(2,964)	26,604	76,572
Change in cash and cash equivalents	(2,494)	4,636	707	—	2,849
Cash and cash equivalents at beginning of period	5,216	13,215	7,061	—	25,492
Cash and cash equivalents at end of period	\$2,722	\$17,851	\$ 7,768	\$ —	\$ 28,341

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2016

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income	\$33,585	\$30,564	\$ 2,581	\$ (33,145)	\$ 33,585
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity earnings of subsidiaries	(33,187)	—	—	33,187	—
Dividends received from affiliates	24,807	—	—	(24,807)	—
Depreciation and amortization	171	45,466	3,381	(72)	48,946
Changes in value of life insurance contracts	—	(915)	—	—	(915)
Changes in operating assets and liabilities	1,844	12,552	(6,623)	54	7,827
Other changes in noncurrent assets and liabilities	387	24,726	9,297	(24)	34,386
Net cash provided by operating activities	27,607	112,393	8,636	(24,807)	123,829
Investing activities:					
Utility plant expenditures	—	(163,179)	(3,227)		