

AMERICAN STATES WATER CO
Form 10-K
March 11, 2011
[Table of Contents](#)

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

**FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010
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**
001-14431

**Registrant, State of Incorporation
Address, Zip Code and Telephone Number**

**IRS Employer
Identification No.**
95-4676679

American States Water Company

(Incorporated in California)
630 E. Foothill Boulevard, San Dimas, CA 91773-1212
(909) 394-3600

001-12008

Golden State Water Company

95-1243678

(Incorporated in California)
630 E. Foothill Boulevard, San Dimas, CA 91773-1212
(909) 394-3600

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

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Title of Each Class	Name of Each Exchange on Which Registered
American States Water Company Common Shares	New York Stock Exchange

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

American States Water Company	Yes <input type="radio"/> No <input checked="" type="radio"/>
Golden State Water Company	Yes <input type="radio"/> No <input checked="" type="radio"/>

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

American States Water Company	Yes <input type="radio"/> No <input checked="" type="radio"/>
Golden State Water Company	Yes <input type="radio"/> No <input checked="" type="radio"/>

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

American States Water Company	Yes <input checked="" type="radio"/> No <input type="radio"/>
Golden State Water Company	Yes <input checked="" type="radio"/> No <input type="radio"/>

Indicate by check mark whether 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 (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files).

American States Water Company	Yes <input type="radio"/> No <input type="radio"/>
Golden State Water Company	Yes <input type="radio"/> No <input type="radio"/>

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

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Golden State Water Company

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

American States Water Company

Yes No

Golden State Water Company

Yes No

The aggregate market value of the total voting common stock held by non-affiliates of American States Water Company was approximately \$616,060,000 and \$638,717,000 on June 30, 2010 and March 9, 2011, respectively. The closing price per Common Share on March 9, 2011, as quoted in the *The Wall Street Journal website*, was \$34.24. As of March 9, 2011, the number of Common Shares of American States Water Company outstanding was 18,654,106. As of that same date, American States Water Company owned all 142 outstanding Common Shares of Golden State Water Company. The aggregate market value of the total voting stock held by non-affiliates of Golden State Water Company was zero on June 30, 2010 and March 9, 2011.

Golden State Water Company meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form, in part, with the reduced disclosure format for Golden State Water Company.

Documents Incorporated by Reference:

Portions of the Proxy Statement of American States Water Company will be subsequently filed with the Securities and Exchange Commission as to Part III, Item Nos. 10, 11, 13 and 14 and portions of Item 12, in each case as specifically referenced herein.

Table of Contents

AMERICAN STATES WATER COMPANY
and

GOLDEN STATE WATER COMPANY

FORM 10-K

INDEX

Part I

<u>Item 1:</u>	<u>Business</u>	3
<u>Item 1A:</u>	<u>Risk Factors</u>	6
<u>Item 1B:</u>	<u>Unresolved Staff Comments</u>	14
<u>Item 2:</u>	<u>Properties</u>	15
<u>Item 3:</u>	<u>Legal Proceedings</u>	17
<u>Item 4:</u>	<u>Removed and Reserved</u>	17

Part II

<u>Item 5:</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	18
<u>Item 6:</u>	<u>Selected Financial Data</u>	22
<u>Item 7:</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	23
<u>Item 7A:</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	75
<u>Item 8:</u>	<u>Financial Statements and Supplementary Data</u>	76
<u>Item 9:</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	137
<u>Item 9A:</u>	<u>Controls and Procedures</u>	137
<u>Item 9B:</u>	<u>Other Information</u>	137

Part III

<u>Item 10:</u>	<u>Directors, Executive Officers and Corporate Governance</u>	138
<u>Item 11:</u>	<u>Executive Compensation</u>	138
<u>Item 12:</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	138
<u>Item 13:</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	138
<u>Item 14:</u>	<u>Principal Accounting Fees and Services</u>	138

Part IV

<u>Item 15:</u>	<u>Exhibits, Financial Statement Schedules</u>	139
	<u>Reports of Independent Registered Public Accounting Firm</u>	134
	<u>Report from Management on the Responsibility for Financial Statements</u>	136
	<u>Schedule I – Condensed Financial Information of Parent and Notes</u>	144

Table of Contents

PART I

Item 1. Business

This annual report on Form 10-K is a combined report being filed by two separate Registrants: American States Water Company (hereinafter "AWR"), and Golden State Water Company (hereinafter "GSWC"). References in this report to "Registrant" are to AWR and GSWC, collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than GSWC.

AWR makes its periodic reports, Form 10-Q and Form 10-K, and current reports, Form 8-K, available free of charge through its website, www.aswater.com, as soon as material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). Such reports are also available on the SEC's internet website at <http://www.sec.gov>. AWR also makes available free of charge its code of business conduct and ethics, its corporate governance guidelines and the charters of its Nominating and Governance Committee, its Compensation Committee, and its Audit and Finance Committee through its website or by calling (800) 999-4033. AWR and GSWC have filed the certification of officers required by Section 302 of the Sarbanes-Oxley Act as Exhibits 31.1 and 31.2 to its Form 10-K for the year ended December 31, 2010.

General

AWR is the parent company of GSWC, Chaparral City Water Company ("CCWC") and American States Utility Services, Inc. ("ASUS") and its subsidiaries (Fort Bliss Water Services Company ("FBWS"), Terrapin Utility Services, Inc. ("TUS"), Old Dominion Utility Services, Inc. ("ODUS"), Palmetto State Utility Services, Inc. ("PSUS") and Old North Utility Services, Inc. ("ONUS")). AWR was incorporated as a California corporation in 1998 as a holding company. AWR has three reportable segments: water, electric and contracted services. Within the segments, AWR has three principal business units: water and electric service utility operations conducted through GSWC, a water service utility operation conducted through CCWC, and contracted services conducted through ASUS and its subsidiaries. FBWS, TUS, ODUS, PSUS and ONUS may be referred to herein collectively as the "Military Utility Privatization Subsidiaries."

GSWC is a California public utility company engaged principally in the purchase, production and distribution of water in 75 communities in 10 counties in the State of California. GSWC is regulated by the California Public Utilities Commission ("CPUC"). It was incorporated as a California corporation on December 31, 1929. GSWC is organized into nine water and one electric rate-making areas. The nine water rate-making areas are divided into three regions for rate filing purposes. Region I consists of 7 rate-making and customer service areas in northern and central California. Region II consists of one rate-making area servicing 4 customer service areas located in Los Angeles County. Region III consists of one rate-making areas servicing 10 customer service areas in eastern Los Angeles County, and in Orange, San Bernardino and Imperial counties. GSWC also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County through its Bear Valley Electric Service ("BVES") division.

GSWC served 255,562 water customers and 23,257 electric customers at December 31, 2010, or a total of 278,819 customers, compared with 254,998 water customers and 23,234 electric customers at December 31, 2009, or a total of 278,232 customers. GSWC's utility operations exhibit seasonal trends. Although GSWC's water utility operations have a diversified customer base, residential and commercial customers account for the majority of GSWC's water sales and revenues. Revenues derived from commercial and residential water customers accounted for

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approximately 90% of total water revenues for the years ended December 31, 2010, 2009 and 2008.

CCWC is an Arizona public utility company serving 13,468 customers as of December 31, 2010, compared with 13,406 customers at December 31, 2009. Located in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona, the majority of CCWC's customers are residential. The Arizona Corporation Commission (ACC) regulates CCWC. On June 7, 2010, AWR entered into a stock purchase agreement with EPCOR Water (USA) Inc. (EPCOR) to sell all of the common stock of CCWC for a total purchase price of \$35.0 million, including the assumption of approximately \$6.0 million of long-term debt. The purchase price is subject to certain adjustment for changes in retained earnings. The consummation of the transaction contemplated by the agreement is subject to customary conditions, including among other things, regulatory approval by the ACC, which is anticipated to be received in 2011.

ASUS, through its wholly-owned subsidiaries, has contracted with the U.S. government to provide water and/or wastewater services, including the operation, maintenance, renewal and replacement of the water and/or wastewater systems, pursuant to 50-year fixed price contracts. Each of the contracts with the U.S. government may be subject to termination, in

Table of Contents

whole or in part, prior to the end of the 50-year term for convenience of the U.S. government or as a result of default or nonperformance by the subsidiary performing the contract. In either event, each Military Utility Privatization Subsidiary so impacted should be entitled to recover the remaining amount of its capital investment pursuant to the terms of a termination settlement with the U.S. government at the time of termination as provided in the contract. The contract price for each of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter under the terms of the contract. Prices are subject to equitable adjustment based upon changes in circumstances, changes in laws and/or regulations, and changes in wages and fringe benefits to the extent provided in each of the contracts. AWR guarantees performance of ASUS' military privatization contracts. Pursuant to the terms of these contracts, the Military Utility Privatization Subsidiaries operate, as of the effective date of their respective contracts, the following water and wastewater systems:

- FBWS - water and wastewater systems at Fort Bliss located near El Paso, Texas and extending into southeastern New Mexico effective October 1, 2004;
- TUS - water and wastewater systems at Andrews Air Force Base in Maryland effective February 1, 2006;
- ODUS - wastewater systems at Fort Lee in Virginia effective February 23, 2006 and the water and wastewater systems at Fort Eustis, Fort Monroe and Fort Story in Virginia effective April 3, 2006;
- PSUS - water and wastewater systems at Fort Jackson in South Carolina effective February 16, 2008; and
- ONUS - water and wastewater systems at Fort Bragg, Pope Air Force Base and Camp MacKall, North Carolina effective March 1, 2008.

Certain financial information for each of AWR's business segments - water distribution, electric distribution, and contracted services - is set forth in Note 16 to the Notes to Consolidated Financial Statements of American States Water Company and its subsidiaries. AWR's water and electric distribution segments are not dependent upon a single or only a few customers. Other than a contract with a municipality to provide billing and meter reading services, which will terminate on April 1, 2011, the U.S. government is the only customer for ASUS' contracted services.

The revenue from most of AWR's business segments is seasonal. The impact of seasonality on AWR's businesses is discussed in more detail in Item 1A *Risk Factors*.

Environmental matters and compliance with such laws and regulations are discussed in detail in Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* under the section titled *Environmental Matters*.

Competition

The businesses of GSWC and CCWC are substantially free from direct and indirect competition with other public utilities, municipalities and other public agencies within their existing service territories. GSWC and CCWC compete with governmental agencies and other investor-owned utilities in connection with offering service to new real estate developments on the basis of financial terms, availability of water and ability to commence providing service on a timely basis. AWR's other subsidiary, ASUS, actively competes for business with other investor-owned utilities, other third party providers of water and/or wastewater services, and governmental entities primarily on the basis of price and quality of

service.

Employee Relations

AWR had a total of 719 employees as of December 31, 2010 as compared to 703 employees as of December 31, 2009. GSWC had 592 employees as of December 31, 2010 as compared to 582 employees as of December 31, 2009. Nineteen positions in GSWC's Bear Valley Electric customer service area are covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers, which expired in 2010. GSWC is currently in negotiations with this union on a new agreement. Sixty-five employees in GSWC's Region II ratemaking district are covered by a collective bargaining agreement with the Utility Workers Union of America, which expires in 2011. GSWC has no other unionized employees.

AWR and its other subsidiaries had 127 employees as of December 31, 2010. Eleven of the employees of a subsidiary of ASUS are covered by a collective bargaining agreement with the International Union of Operating Engineers which expires in 2011.

Table of Contents

Forward-Looking Information

This Form 10-K and the documents incorporated by reference herein contain forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding our goals, beliefs, plans or current expectations, taking into account the information currently available to management. Forward-looking statements are not statements of historical facts. For example, when we use words such as believes, anticipates, expects, plans, estimates, intends, other words that convey uncertainty of future events or outcomes, we are making forward-looking statements. Such statements address future events and conditions concerning such matters as our ability to raise capital, capital expenditures, earnings, litigation, rates, water sales, water quality and other regulatory matters, adequacy of water supplies, our ability to recover electric, natural gas and water supply costs from customers, contract operations, liquidity and capital resources, and accounting matters.

We caution you that any forward-looking statements made by us are not guarantees of future performance and that actual results may differ materially from those currently anticipated in such statements, by reason of factors such as: changes in utility regulation; recovery of regulatory assets not yet included in rates; future economic conditions which affect changes in customer demand and changes in water and energy supply costs; changes in pension and post-retirement benefit plan costs; future climatic conditions; delays in customer payments or price redeterminations or equitable adjustments on contracts executed by ASUS and its subsidiaries; potential assessments for failure to meet interim targets for the purchase of renewable energy; and legislative, legal proceedings, regulatory and other circumstances affecting anticipated revenues and costs.

Table of Contents

Item 1A Risk Factors

You should carefully read the risks described below and other information in this Form 10-K in order to understand certain of the risks of our business.

Our business is heavily regulated and, as a result, decisions by regulatory agencies and changes in laws and regulations can significantly affect our business

Our revenues depend substantially on the rates and fees we charge our customers and the ability to recover our costs on a timely basis, including the ability to recover the costs of purchased water, groundwater assessments, electric power, natural gas, chemicals, water treatment, security at water facilities and preventative maintenance and emergency repairs. Any delays by either the CPUC or the ACC in granting rate relief to cover increased operating and capital costs at our public utilities or delays in obtaining approval of our requests for equitable adjustments or price redeterminations for contracted services from the U.S. government may adversely affect our financial performance. We may file for interim rates in California in situations where there may be delays in granting final rate relief during a general rate case proceeding. If the CPUC approves lower rates, the CPUC will require us to refund to customers the difference between the interim rates and the rates approved by the CPUC. Similarly, if the CPUC approves rates that are higher than the interim rates, the CPUC may authorize us to recover the difference between the interim rates and the final rates.

Regulatory decisions may also impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses, may overturn past decisions used in determining our revenues and expenses and could result in impairment of goodwill if the decision affects a subsidiary. Management continually evaluates the anticipated recovery of regulatory assets, liabilities and revenues subject to refund and provides for allowances and/or reserves as deemed necessary. In the event that our assessment of the probability of recovery through the ratemaking process is incorrect, we will adjust the associated regulatory asset or liability to reflect the change in our assessment or any regulatory disallowances. A change in our evaluation of the probability of recovery of regulatory assets, a regulatory disallowance of all or a portion of our costs could have a material adverse effect on our financial results.

Management also reviews goodwill for impairment at least annually. ASUS has \$1.1 million of goodwill which may be at risk for potential impairment if requested price redeterminations and/or equitable adjustments are not granted. CCWC has \$3.3 million of goodwill which we do not believe is at risk for potential impairment.

We are also, in some cases, required to estimate future expenses and in others, we are required to incur the expense before recovering costs. As a result, our revenues and earnings may fluctuate depending on the accuracy of our estimates, the timing of our investments or expenses or other factors. If expenses increase significantly over a short period of time, we may experience delays in recovery of these expenses, the inability to recover carrying costs for these expenses and increased risks of regulatory disallowances or write-offs.

Regulatory agencies may also change their rules and policies which may adversely affect our profitability and cash flows. Changes in policies of the U.S. government may also adversely affect our military base contract operations. In certain circumstances, the U.S. government may be unwilling or unable to appropriate funds to pay costs mandated by changes in rules and policies of state regulatory agencies. The U.S. government may disagree with the increases that we request and may delay approval of requests for equitable adjustment or redetermination of

prices which could adversely affect our anticipated rates of return.

We may also be subject to fines or penalties if a regulatory agency determines that we have failed to comply with laws, regulations or orders applicable to our businesses, unless we appeal this determination, or our appeal of an adverse determination is denied.

Our costs involved in maintaining water quality and complying with environmental regulation have increased and are expected to continue to increase

Our capital and operating costs have increased substantially as a result of increases in environmental regulation arising from increases in the cost of disposing of residuals from our water treatment plants, upgrading and building new water treatment plants, monitoring compliance activities and securing alternative supplies when necessary. Our public utilities may be able to recover these costs through the ratemaking process. We may also be able to recover these costs under contractual arrangements. In certain circumstances, costs may be recoverable from parties responsible or potentially responsible for contamination, either voluntarily or through specific court action.

Table of Contents

We may also incur significant costs in connection with seeking to recover costs due to contamination of water supplies. Our ability to recover these types of costs also depends upon a variety of factors, including approval of rate increases, the willingness of potentially responsible parties to settle litigation and otherwise address the contamination and the extent and magnitude of the contamination. We can give no assurance regarding the adequacy of any such recovery to offset the costs associated with the contamination or the cost of recovery of these costs.

We may sustain losses that exceed or are excluded from our insurance coverage or for which we are not insured

We are, from time to time, parties to legal or regulatory proceedings. These proceedings may pertain to regulatory investigations, employment matters or other disputes. Management periodically reviews its assessment of the probable outcome of these proceedings, the costs and expenses reasonably expected to be incurred, and the availability and extent of insurance coverage. On the basis of this review, management establishes reserves for such matters. We may, however, from time to time be required to pay fines, penalties or damages that exceed our insurance coverage and/or reserves if our estimate of the probable outcome of such proceedings proves to be inaccurate.

We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities. However, our insurance policies contain exclusions and other limitations that may not cover our potential liabilities. Generally, our insurance policies cover worker's compensation, employer's liability, general liability and automobile liability. Each policy includes deductibles or self-insured retentions and policy limits for covered claims. As a result, we may sustain losses that exceed or that are excluded from our insurance coverage or for which we are not insured.

Additional Risks Associated with our Public Utility Operations

Our operating costs have increased and are expected to continue to increase as a result of groundwater contamination

Our operations are impacted by groundwater contamination in certain service territories. We have taken a number of steps to address contamination, including the removal of wells from service, decreasing the amount of groundwater pumped from wells in order to slow the movement of plumes of contaminated water, constructing water treatment facilities and securing alternative sources of supply from other areas not affected by the contamination. In emergency situations, we have supplied our customers with bottled water until the emergency situation has been resolved.

In some cases, potentially responsible parties have reimbursed us for some or all of our costs. In other cases, we have taken legal action against parties believed to be potentially responsible for the contamination. To date, the CPUC has permitted us to establish memorandum accounts in California for potential recovery of these types of costs. We can give no assurance regarding the outcome of litigation arising out of contamination or our ability to recover these costs in the future.

Persons who are potentially responsible for causing the contamination of groundwater supplies have asserted claims against water distributors on a variety of theories and have thus far brought the water distributors (including GSWC) within the class of potentially responsible parties in federal court actions pending in Los Angeles County. This increases the costs and risks of seeking recovery of these costs. Management

believes that rate recovery, proper insurance coverage and reserves are in place to appropriately manage these types of claims. However, such claims, if ultimately resolved unfavorably to us, could, in the aggregate, have a material adverse effect on our results of operations and financial condition.

The adequacy of our water supplies depends upon a variety of uncontrollable factors

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

- Rainfall, runoff, flood control and availability of reservoir storage;
- Availability of Colorado River water and imported water from northern California;
- The amount of useable water stored in reservoirs and groundwater basins;
- The amount of water used by our customers and others;
- Water quality;
- Legal limitations on production, diversion, storage, conveyance and use; and
- Climate change.

Table of Contents

Population growth and increases in the amount of water used in California and Arizona have caused increased stress on surface water supplies and groundwater basins. In addition, new court-ordered pumping restrictions on water obtained from the Sacramento-San Joaquin Delta may decrease the amount of water Metropolitan Water District of Southern California (MWD), is able to import from northern California. We are providing incentives to and/or assessing penalties on our customers in order to encourage water conservation. We are also acting to secure additional supplies from desalination and water transfers. However, we cannot predict to what extent these efforts to reduce stress on our water supplies will be successful or sustainable.

CCWC obtains its water supply from operating wells and from the Colorado River through the Central Arizona Project (CAP). CCWC 's water supply may be subject to interruption or reduction if there is an interruption or reduction in water supplies available to CAP. In addition, CCWC 's ability to provide water service to new real estate developments is dependent upon CCWC 's ability to meet the requirements of the Arizona Department of Water Resources regarding the CCWC 's assured water supply account.

Water shortages at our rate-regulated water utilities may:

- adversely affect our supply mix, for instance, causing increased reliance upon more expensive water sources;
- adversely affect our operating costs, for instance, by increasing the cost of producing water from more highly contaminated aquifers;
- result in an increase in our capital expenditures, for example by requiring the construction of pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of our customers, and reservoirs and other facilities to conserve or reclaim water; and
- adversely affect the volume of water sold as a result of mandatory or voluntary conservation efforts by customers.

We may be able to recover increased operating and capital costs through the ratemaking process. GSWC has implemented a modified supply cost balancing account to track and recover costs from supply mix changes and rate changes by wholesale suppliers, as authorized by the CPUC. We may also recover costs from certain third parties that may be responsible, or potentially responsible, for groundwater contamination.

Our liquidity may be adversely affected by changes in water supply costs

We obtain our water supplies for GSWC and CCWC from a variety of sources. For example, water is pumped from aquifers within our service areas to meet a portion of the demands of our customers. When water produced from wells in those areas is insufficient to meet customer demand or when such production is interrupted, we have purchased water from other suppliers. As a result, our cost of providing, distributing and treating water for our customers use can vary significantly. Furthermore, imported water wholesalers, such as MWD and CAP may not always have an adequate supply of water to sell to us.

Our liquidity and earnings may be adversely affected by increases in maintenance costs due to our aging infrastructure

Some of our systems in California are more than 50 years old. We have experienced leaks and water quality and mechanical problems in some of these older systems. In addition, well and pump maintenance expenses are affected by labor and material costs and more stringent water discharge requirements. These costs can increase unexpectedly in substantial amounts.

We include increases in maintenance costs in each general rate case filed by our rate-regulated public utilities for possible recovery. However, we estimate the amount of expenses expected to be incurred during future years in California. We may not recover overages from those estimates in rates.

Table of Contents

Our liquidity and earnings may be adversely affected by our conservation efforts

Conservation by all customer classes at GSWC and CCWC is a top priority. However, customer conservation can result in lower volumes of water sold. We are also experiencing a decline in per residential customer water usage due to the use of more efficient household fixtures and appliances by residential consumers, and perhaps, efforts by our customers to reduce costs as a result of adverse economic conditions.

Our public utilities businesses are heavily dependent upon revenue generated from rates charged to our residential customers for the volume of water used. The rates we charge for water are regulated by the CPUC and the ACC and may not be unilaterally adjusted to reflect changes in demand. Declining usage also negatively impacts our long-term operating revenues if we are unable to secure rate increases or if growth in the residential customer base does not occur to the extent necessary to offset the per customer residential usage decline. We implemented a water revenue adjustment mechanism (WRAM) at GSWC which has the effect of reducing the adverse impacts of our customers' conservation efforts on revenues; however, cash flows from operations can be significantly affected as much of the revenues recognized in the WRAM accounts will be collected from customers primarily through a surcharge over a 12 - 24 month period.

Our earnings may be affected, to some extent, by weather during different seasons

The demand for water and electricity varies by season. For instance, most water consumption occurs during the third quarter of each year when weather in California and Arizona tends to be hot and dry. During unusually wet weather, our customers generally use less water. GSWC implemented a conservation rate design and a water revenue adjustment mechanism, for Regions II and III in late November 2008, and for Region I's ratemaking areas in September 2009, which should help mitigate fluctuations in revenues and earnings due to changes in water consumption in California. CCWC's revenues and profitability will, however, continue to be impacted by changes in water consumption in Arizona.

The demand for electricity in our electric customer service area is greatly affected by winter snows. An increase in winter snows reduces the use of snowmaking machines at ski resorts in the Big Bear area and, as a result, reduces our electric revenues. Likewise, unseasonably warm weather during a skiing season may result in temperatures too high for snowmaking conditions, which also reduces our electric revenues. In November 2009, GSWC implemented a base revenue requirement adjustment mechanism for our electric business which should help mitigate fluctuations in the revenues and earnings of our electric business due to changes in the amount of electricity used by GSWC's customers.

Our liquidity, and in certain circumstances, earnings, may be adversely affected by increases in electricity and natural gas prices in California

We purchase most of our electric energy sold to customers in our electric customer service area from others under purchased power contracts. In addition to purchased power contracts, we purchase additional energy from the spot market to meet peak demand. We may sell surplus power to the spot market during times of reduced energy demand. We also operate a natural gas-fueled 8.4 megawatt generator in our electric service area.

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The CPUC permits us to recover energy purchase costs from customers, up to an annual weighted average cost of \$77 per megawatt hour (MWh) each year. Upon expiration of the \$77 MWh rate in August 2011, the CPUC will grant approval for revised rates to recover these energy costs. We are required to write-off costs in excess of this cap. As a result, we are at risk for increases in spot market prices of electricity purchased and for decreases in spot market prices for electricity sold.

Unexpected generator downtime or a failure to perform by any of the counterparties to our electric and natural gas purchase contracts could further increase our exposure to fluctuating natural gas and electric prices.

Changes in electricity prices also affect the unrealized gains and losses on our block forward purchased power contracts that qualify as derivative instruments as we adjust the asset or liability on these contracts to reflect the fair market value of the contracts at the end of each month. The CPUC has authorized us to establish a memorandum account to track the changes in the fair market value of our power purchased contracts that became effective on January 1, 2009. As a result, unrealized gains and losses on these purchased power contracts will not impact earnings.

Table of Contents

We may not be able to procure sufficient renewable energy resources to comply with CPUC rules

We are required to procure a portion of our electricity from renewable energy resources. Due to our small size as compared to other energy utilities and the constrained renewable energy market, we have not been able to obtain sufficient resources to achieve the established interim target purchase levels. We believe that BVES is permitted to defer compliance with these requirements under the CPUC's flexible compliance rules. However, BVES may be subject to fines and penalties by the CPUC if the CPUC determines that BVES is not in compliance with the renewable resource procurement rules.

Our assets are subject to condemnation

Municipalities and other government subdivisions may, in certain circumstances, seek to acquire certain of our assets through eminent domain proceedings. It is generally our practice to contest these proceedings which may be costly and may divert the attention of management from the operation of our business. If a municipality or other government subdivision succeeds in acquiring our assets, there is a risk that we will not receive adequate compensation for the assets acquired or be able to recover all charges associated with the divestiture of these assets.

Additional Risks Associated with our Contracted Services

We derive revenues from contract operations primarily from the operation and maintenance of water and/or wastewater systems at military bases and the construction of water and wastewater improvements to the infrastructure on most of these bases. As a result, these operations are subject to risks that are different than those of our public utility operations.

Our operations and maintenance contracts on military bases create certain risks that are different from our public utility operations

We have entered into contracts to provide water and/or wastewater services at military bases pursuant to 50-year contracts, subject to termination, in whole or in part, for the convenience of the U.S. government. In addition, the U.S. government may stop work under the terms of the contracts, delay performance of our obligations under the contracts or modify the contracts at its convenience.

Our contract pricing was based on a number of assumptions, including assumptions about prices and availability of labor, equipment and materials. We may be unable to recover all costs if any of these assumptions are inaccurate or if all costs that we may incur in connection with performing the work were not considered. Our operations and maintenance contracts are also subject to periodic price adjustments at the time of price redetermination or in connection with requests for equitable adjustments or other changes permitted by the terms of the contracts. The contract price for each of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter to the extent provided in each of the contracts. Prices are also subject to equitable adjustment based upon changes in circumstances and changes in wages and fringe benefits to the extent provided in each of the contracts.

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We have experienced delays in the redetermination of prices following completion of the first two years of operation under our operation and maintenance contracts. We have also experienced delays in the past in obtaining a final equitable adjustment of prices for the significantly higher infrastructure at certain of the bases than that described by the U.S. government in its request for proposal. These delays have negatively impacted our results of operations and cash flows.

We are required to record all costs incurred under these types of contracts as these costs are incurred. As a result, we may record losses associated with unanticipated conditions, higher than anticipated infrastructure levels and emergency work at the time such expenses occur. We recognize revenue for such work as, and to the extent that, our requests for equitable adjustments are approved. Delays in obtaining approval of equitable adjustments can negatively impact our results of operations and cash flows.

We are subject to audits, cost review and investigations by contracting oversight agencies. During the course of an audit, the oversight agency may disallow costs. Such cost disallowances may result in adjustments to previously reported revenues.

Payment under these contracts is subject to appropriations by Congress. We may experience delays in receiving payment or delays in redetermination of prices or other price adjustments due to cancelled or delayed appropriations specific to our projects or reductions in government spending for the military generally or military base operations specifically.

Table of Contents

Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures for the military generally or military base operations specifically.

Risks associated with the collection of wastewater are different, in some respects, from that of our water utility operations

The wastewater collection system operations of our subsidiaries providing wastewater services on military bases are subject to substantial regulation and involve significant environmental risks. If collection or sewage systems fail, overflow or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages, which may not be recoverable. This risk is most acute during periods of substantial rainfall or flooding, which are common causes of sewer overflows and system failures. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. In the event that we are deemed liable for any damage caused by overflow, our losses might not be covered by insurance policies or we may find it difficult to secure insurance for this business in the future at acceptable rates.

Our contracts for the construction of infrastructure improvements on military bases create risks that are different, in some respects, from that of our operations and maintenance contracts

We have entered into contract modifications with the U.S. government (and in some cases third parties) for the construction of new water and/or wastewater infrastructure at the military bases. Most of these contracts are firm fixed-price contracts. Under firm fixed-price contracts, we benefit from cost savings and earnings, but are generally unable to recover any cost overruns to the approved contract price. Under extenuating circumstances, the U.S. government has approved increased cost change orders.

We recognize revenues from these types of contracts using the percentage-of-completion method of accounting. This accounting practice results in our recognizing contract revenues and earnings ratably over the contract term in proportion to our incurrence of contract costs or the physical completion of the construction projects. The earnings or losses recognized on individual contracts are based on periodic estimates of contract revenues, costs and profitability as the construction projects progress.

We establish prices for these types of firm fixed-price contracts based, in part, on cost estimates that are subject to a number of assumptions, including assumptions regarding future economic conditions. If these estimates prove inaccurate or circumstances change, cost overruns could have a material adverse effect on our contracted business operations and results of operations.

We may be adversely affected by disputes with the U.S. government regarding our performance of contract services on military bases

If there is a dispute with the U.S. government regarding performance under these contracts or the amounts owed to us, the U.S. government may delay, reject or withhold payment, or assert its right to offset damages against amounts owed to us. If we are unable to collect amounts owed to us on a timely basis or the U.S. government asserts its offset rights, profits and cash flows will be adversely affected.

If we fail to comply with the terms of one or more of our U.S. government contracts, other agreements with the U.S. government or U.S. government regulations and statutes, we could be suspended or barred from future U.S. government contracts for a period of time and be subject to possible damages, fines and penalties and damage to our reputation in the water and wastewater industry.

Table of Contents

We depend, to some extent, upon subcontractors to assist us in the performance of contracted services on military bases

We rely, to some extent, on subcontractors to assist us in the operation and maintenance of the water and wastewater systems at military bases. The failure of any of these subcontractors to perform services for us in accordance with the terms of our contracts with the U.S. government could result in the termination of our contracts to provide water and/or wastewater services at these bases, a loss of revenues or increases in costs to correct a subcontractor's performance failures. We are able to mitigate these risks, in part, by obtaining and requiring our subcontractors to obtain performance bonds.

We are also required to make a good faith effort to achieve our small business subcontracting plan goals pursuant to U.S. government regulation. If we fail to use good faith efforts to meet these goals, the U.S. government may assess damages against us at the end of the contract or, in some cases, at the end of each price redetermination period. The U.S. government has the right to offset claimed damages against any amounts owed to us.

We also rely on third-party manufacturers as well as third-party subcontractors to complete our construction projects. To the extent that we cannot engage subcontractors or acquire equipment or materials, our ability to complete a project in a timely fashion or at a profit may be impaired. If the amount of costs we incur for these projects exceeds the amount we have estimated in our bid, we could experience losses in the performance of these contracts. In addition, if a subcontractor or manufacturer is unable to deliver its services, equipment or materials according to the negotiated terms for any reason, including the deterioration of its financial condition, we may be required to purchase the services, equipment or materials from another source at a higher price. This may reduce the profit to be realized or result in a loss on a project for which the services, equipment or materials were needed.

If these subcontractors fail to perform services to be provided to us or fail to provide us with the proper equipment or materials, we may be penalized for their failure to perform; however, our contracts with these subcontractors include certain protective provisions, which may include the assessment of liquidated damages. We mitigate these risks by requiring many of our subcontractors to obtain performance bonds and to compensate us for any penalties we may be required to pay as a result of their failure to perform.

Our earnings may be affected, to some extent, by weather during different seasons

Seasonal weather conditions, such as hurricanes or significant winter storms, occasionally cause temporary office closures and/or result in temporary halts to construction activity at military bases. To the extent that our construction activities are impeded by these events, we will experience a delay in recognizing revenues from these construction projects.

We continue to incur costs associated with the expansion of our contract activities

We continue to incur additional costs in connection with the attempted expansion of our contract operations associated with the preparation of bids for new contracts for contract operations on military bases and compliance with regulatory requirements associated with our water marketing efforts. Our ability to recover these costs and to earn a profit on our contract operations will depend upon the extent to which we are

successful in obtaining new contracts on military bases and satisfying regulatory requirements associated with our water marketing efforts and recovering these costs and other costs from new contract revenues.

Other Risks

Our business requires significant capital expenditures

The utility business is capital intensive. On an annual basis, we spend significant sums of money for additions to, or replacement of, our property, plant and equipment at our California and Arizona utilities. We obtain funds for these capital projects from operations, contributions by developers and others and advances from developers (which are repaid over a period of time at no interest). We also periodically borrow money or issue equity for these purposes. In addition, we have a syndicated bank credit facility that is partially used for these purposes. We cannot provide assurance that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to earn a reasonable rate of return.

Our subsidiaries providing water and wastewater services on military bases also expect to incur significant capital expenditures. To the extent that the U.S. government does not reimburse us for these expenditures as the work is performed

Table of Contents

or completed, the U.S. government will repay us over time. However, if there is a dispute with the U.S. government regarding performance under these contracts or the amounts owed to us, the U.S. government may delay, reject or withhold payment, or assert its right to offset damages against amounts owed to us. If we are unable to collect amounts owed to us on a timely basis or the U.S. government asserts its offset rights, profits and cash flows will be adversely affected.

We may be adversely impacted by economic conditions

Economic uncertainty continues to impact the growth of the debt and equity markets. Although portions of our operations are funded through cash flows from operations, we obtain funds through external sources such as bank borrowings as well as issuance of debt and equity securities. Access to these external financing on reasonable terms depends, in part, on conditions in the debt and equity markets. When business and market conditions deteriorate, we may no longer have access to the capital markets on reasonable terms. Our ability to obtain funds is dependent upon our ability to access the capital markets by issuing debt or equity to third parties or obtaining funds from our revolving credit facility which expires in May 2013. In the event of financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry, significant financial service institution failures or our inability to renew or replace our existing revolving credit facility on attractive terms, it may become necessary for us to seek funds from other sources on unattractive terms.

Our failure to comply with the restrictive covenants in our long-term debt agreements and credit facility could trigger prepayment obligations

Our failure to comply with the restrictive covenants under our long-term debt agreements could result in an event of default, which, if not cured or waived, could result in us being required to repay or refinance these borrowings before their due dates on less favorable terms. If we are forced to repay or refinance these borrowings on less favorable terms, our results of operations and financial condition could be adversely affected by increased costs and interest rates.

We are a holding company that depends on cash flow from GSWC to meet our financial obligations and to pay dividends on our common shares

As a holding company, our subsidiaries conduct substantially all operations and our only significant assets are investments in our subsidiaries. This means that we are dependent on distributions of funds from our subsidiaries to meet our debt service obligations and to pay dividends on our common shares. More than 81% of our revenues in 2010 were derived from the operations of GSWC. Moreover, none of our other subsidiaries has paid any dividends to us during the past three years. As a result, we are largely dependent on cash flow from GSWC to meet our financial obligations and to pay dividends on our common shares.

Our subsidiaries are separate and distinct legal entities and generally have no obligation to pay any amounts due on our debt. Our subsidiaries only pay dividends if and when declared by the subsidiary board. Moreover, GSWC is obligated to give first priority to its own capital requirements and to maintain a capital structure consistent with that determined to be reasonable by the CPUC in its most recent decision on capital structure, in order that customers not be adversely affected by the holding company structure. Furthermore, our right to receive cash or other assets in the unlikely event of liquidation or reorganization of GSWC is generally subject to the prior claims of creditors of that subsidiary. If we are unable to obtain funds from GSWC in a timely manner, we may be unable to meet our financial obligations, make additional investments or pay dividends.

We are increasingly dependent on the continuous and reliable operation of our information technology systems

We rely on our information technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities. A loss of these systems or major problems with the operation of these systems could affect our operations and have a significant material adverse effect on our results of operations.

Table of Contents

Our operations are geographically concentrated in California

Although we operate water and wastewater facilities in a number of states, our operations are concentrated in California, particularly southern California. As a result, our financial results are largely subject to political, water supply, labor, utility cost and regulatory risks, economic conditions and other economic risks affecting California. California has been particularly hard hit by the recent economic crisis. California is, among other things, raising taxes in order to help balance the state budget and jobs may be lost to other states which are perceived as having a more business friendly climate, thereby exacerbating the impact of the financial crisis in California.

We operate in areas subject to natural disasters or that may be the target of terrorist activities

We operate in areas that are prone to earthquakes, fires, mudslides and other natural disasters. While we maintain insurance policies to help reduce our financial exposure, a significant seismic event in southern California, where our operations are concentrated, or other natural disasters in California could adversely impact our ability to deliver water and adversely affect our costs of operations. The CPUC has historically allowed utilities to establish a catastrophic event memorandum account to recover these costs.

Terrorists could seek to disrupt service to our customers by targeting our assets. We have invested in additional security for facilities throughout our regulated service areas to mitigate the risks of terrorist activities. We also may be prevented from providing water and/or wastewater services at the military bases we serve in times of military crisis affecting these bases.

Item 1B Unresolved Staff Comments

None.

Table of Contents**Item 2 - Properties****Electric Properties**

GSWC's electric properties are located in the Big Bear area of San Bernardino County, California. As of December 31, 2010, GSWC owned and operated 29 miles of overhead 34.5 kilovolt (kv) transmission lines, 1 mile of underground 34.5 kv transmission lines, 177.03 miles of 4.16 kv or 2.4 kv distribution lines, 53.15 miles of underground cable, 13 sub-stations and a natural gas-fueled 8.4 MW peaking generation facility. GSWC also has franchises, easements and other rights of way for the purpose of constructing and using poles, wires and other appurtenances for transmitting electricity.

Water Properties

As of December 31, 2010, GSWC's physical properties consisted of water transmission and distribution systems which included 2,782 miles of pipeline together with services, meters and fire hydrants and approximately 425 parcels of land, generally less than 1 acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities, including four surface water treatment plants. GSWC also has franchises, easements and other rights of way for the purpose of constructing and using pipes and appurtenances for transmitting and distributing water.

As of December 31, 2010, GSWC owned 254 wells, of which 188 are active operable wells equipped with pumps with an aggregate production capacity of approximately 199.0 million gallons per day. GSWC has 56 connections to the water distribution facilities of the MWD, and other municipal water agencies. GSWC's storage reservoirs and tanks have an aggregate capacity of approximately 109 million gallons. GSWC owns no dams in its customer service areas. The following table provides, in greater detail, information regarding water utility plant of GSWC for each of its water regions:

Region	Pumps			Distribution Facilities			Reservoirs	
	Well	Booster	Mains*	Services	Hydrants	Tanks	Capacity*	
Region I	76	121	662	56,080	4,036	46	34,678	
Region II	53	65	920	100,879	8,718	25	21,480	
Region III	125	194	1,200	98,637	10,476	74	53,069(1)	
Total	254	380	2,782	255,596	23,230	145	109,227	

* Reservoir capacity is measured in thousands of gallons. Mains are in miles.

(1) GSWC has additional reservoir capacity in its Claremont system, through an exclusive right to use all of one 8 million gallon reservoir, one-half of another 8 million gallon reservoir, and one-half of a treatment plant's capacity, all owned by Three Valleys Municipal Water District.

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As of December 31, 2010, CCWC's physical properties consisted of water transmission and distribution systems, which included 184 miles of pipeline, together with services, meters, fire hydrants, wells, reservoirs with a combined storage capacity of 7.55 million gallons and a surface water treatment plant, which treats water from the CAP.

Adjudicated and Other Water Rights

GSWC

GSWC owns groundwater and surface water rights in California, as shown in the table below. Water rights are divided between groundwater and surface water. Groundwater rights are further subject to classification as either adjudicated or unadjudicated rights. Adjudicated rights have been subjected to comprehensive litigation in the courts, are typically quantified and are actively managed for optimization and sustainability of the resource. Unadjudicated groundwater rights have not been quantified and are not subject to predetermined limitations, but are typically measured by maximum historical usage over the last five years. Surface water rights are quantified and managed by the State Water Resources Control Board, unless they originated prior to 1914, in which case they resemble unadjudicated groundwater rights.

Region	Groundwater		Surface Water		Totals (AFY)
	Adjudicated Rights (AFY)	Unadjudicated Rights (AFY)	Water Rights (AFY)		
Region I	10,248	20,113	10,134	40,495	
Region II	23,942	1,771		25,713	
Region III	27,377	23,010	1,201	51,588	
Total	61,567	44,894	11,335	117,796	

Table of Contents

CCWC

CCWC has an assured water supply designation, by decision and order of the Arizona Department of Water Resources stating that CCWC has demonstrated the physical, legal and continuous availability of CAP water and groundwater, in an aggregate volume of 11,759 acre-feet per year for a minimum of 100 years. The 11,759 acre-feet is comprised of existing CAP allocation of 8,909 acre-feet per year, 350 acre-feet per year groundwater allowance, incidental recharge credits of 500 acre-feet per year, and a Central Arizona Groundwater Replenishment District contract of 2,000 acre-feet per year.

Office Buildings

Registrant's general headquarters are housed in two office buildings located in San Dimas, California, one of which GSWC owns. GSWC also owns and/or leases certain facilities that house regional, district and customer service offices. CCWC owns its primary office space in Fountain Hills, Arizona. ASUS leases an office facility in Costa Mesa, California. ONUS leases a service center located in North Carolina. TUS, PSUS and FBWS rent temporary service center facilities in Maryland, South Carolina and Texas, respectively. ODUS owns a service center in Virginia.

Mortgage and Other Liens

As of December 31, 2010, GSWC had no mortgage debt outstanding or liens securing indebtedness.

As of December 31, 2010, substantially all of the utility plant of CCWC was pledged to secure its Industrial Development Authority Bonds, which among other things, restricts CCWC's ability to incur debt and make liens, sell, lease or dispose of assets, or merge with another corporation, and pay dividends.

As of December 31, 2010, neither AWR nor ASUS or any of its subsidiaries had any mortgage debt or liens securing indebtedness, outstanding. However, under the terms of certain debt of AWR and GSWC, AWR and GSWC are prohibited from issuing any secured debt, without providing equal and ratable security to the holders of this existing debt.

Condemnation of Properties

The laws of the State of California and the State of Arizona provide for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation, where doing so is necessary and in the public interest. In addition, the laws of California provide: (i) that the owner of utility property may contest whether the condemnation is actually necessary and in the public interest, and (ii) that the owner is entitled to receive the fair market value of its property if the property is ultimately taken.

The Town of Apple Valley (the Town) abandoned its activities related to a potential condemnation of GSWC s water systems serving the Town in 2007. However, in January 2011, the Town Council directed staff to update the previously prepared financial feasibility study for the acquisition of GSWC s water systems. GSWC s Apple Valley water systems serve approximately 2,800 customers.

Except for Town of Apple Valley, GSWC is currently not involved in activities related to the potential condemnation of any of its water customer service areas or in its BVES customer service area. No formal condemnation proceedings have been filed against any of the GSWC s service areas during the past three years.

Table of Contents

Item 3 - Legal Proceedings

Water Quality-Related Litigation:

Perchlorate and/or Volatile Organic Compounds (VOC) have been detected in five wells servicing GSWC's South San Gabriel System. GSWC filed suit in federal court, along with two other affected water purveyors and the San Gabriel Basin Water Quality Authority (WQA), against some of those allegedly responsible for the contamination of two of these wells. Some of the other potential defendants settled with GSWC, other water purveyors and the WQA (the Water Entities), on VOC related issues prior to the filing of the lawsuit. In response to the filing of the lawsuit, the Potentially Responsible Party (PRP) defendants filed motions to dismiss the suit or strike certain portions of the suit. The judge issued a ruling on April 1, 2003 granting in part and denying in part the PRP's motions. A key ruling of the court was that the water purveyors, including GSWC, by virtue of their ownership of wells contaminated with hazardous chemicals are themselves PRPs under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).

GSWC has, pursuant to permission of the court, amended its suit to claim certain affirmative defenses as an innocent party under CERCLA. Registrant is presently unable to predict the outcome of this ruling on its ability to fully recover from the PRPs future costs associated with the treatment of these wells. In this same suit, the PRPs have filed cross-complaints against the Water Entities, the MWD, the Main San Gabriel Basin Watermaster and others on the theory that they arranged for and did transport contaminated water into the Main San Gabriel Basin for use by GSWC and the other two affected water purveyors and for other related claims.

On August 29, 2003, the U.S. Environmental Protection Agency (EPA) issued Unilateral Administrative Orders (UAO) against 41 parties deemed responsible for polluting the groundwater in that portion of the San Gabriel Valley from which the two impacted GSWC wells draw water. GSWC was not named as a party to the UAO. The UAO requires that these parties remediate the contamination. The judge in the lawsuit has appointed a special master to oversee mandatory settlement discussions between the PRPs and the Water Entities. EPA is also conducting settlement discussions with several PRPs regarding the UAO. The Water Entities and EPA are working to coordinate their settlement discussions under the special master in order to arrive at a complete resolution of all issues affecting the lawsuit and the UAO. Settlements have been reached between WQA and some PRPs. Settlements with a number of other PRPs are being finalized; however, Registrant is presently unable to predict the ultimate outcome of these settlement discussions.

Santa Maria Groundwater Basin Adjudication:

In 1997, the Santa Maria Valley Water Conservation District (plaintiff) filed a lawsuit against multiple defendants, including GSWC, the City of Santa Maria, and several other public water purveyors seeking to adjudicate the rights to water in the Santa Maria Groundwater Basin. The lawsuit was filed on July 14, 1997 in the Santa Clara County Superior Court: *Santa Maria Valley Water Conservation District v. City of Santa Maria, et al* (Lead Case No. CV 770214; consolidated with Case Nos.: CV 784900, 784921, 784926, 785509, 785511, 785515, 785522, 785936, 786791, 787150, 787151, 787152).

On February 11, 2008, the court issued its final judgment, which approves and incorporates the stipulation. The judgment awards GSWC prescriptive rights to groundwater against the non-stipulating parties. In addition, the judgment grants GSWC the right to use the Basin for temporary storage and to recapture 45 percent of the return flows that are generated from its importation of State Water Project water. Pursuant

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to this judgment, the court retains jurisdiction over all of the parties to make supplemental orders or to amend the judgment as necessary. GSWC's participation in the stipulation is subject to CPUC approval.

On March 20, 2008, the non-stipulating parties filed notices of appeal. Registrant is unable to predict the outcome of the appeal.

Other Litigation:

Registrant is also subject to ordinary routine litigation incidental to its business. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against property, general liability and workers' compensation claims incurred in the ordinary course of business. Management is unable to predict an estimate of the loss, if any, resulting from any pending suits or administrative proceedings.

Item 4. [Removed and Reserved]

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Stock Performance Graph**

The graph below compares American States Water Company's cumulative five-year total shareholder return on Common Shares with the cumulative total returns of the S&P 500 index and a customized peer group of five companies that includes: Artesian Resources Corp., California Water Service Group, Connecticut Water Service Inc., Middlesex Water Company and SJW Corp. The peer group of companies differs from the peer group used by AWR in last year's Annual Report on Form 10-K which also included SouthWest Water Company. SouthWest Water Company no longer has any publicly traded common stock. The graph tracks the performance of a \$100 investment in our Common Shares, in the index and in the peer group (with the reinvestment of all dividends) from December 31, 2005 to December 31, 2010.

	12/05	12/06	12/07	12/08	12/09	12/10
American States Water Company	\$ 100.00	\$ 128.58	\$ 128.49	\$ 115.72	\$ 127.91	\$ 128.24
S&P 500	100.00	115.80	122.16	76.96	97.33	111.99

Peer Group	100.00	124.02	118.87	126.75	111.75	123.69
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The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Table of Contents**Market Information Relating to Common Shares**

Common Shares of American States Water Company are traded on the New York Stock Exchange (NYSE) under the symbol AWR . The intra-day high and low NYSE prices on the Common Shares for each quarter during the past two years, as reported by the Wall Street Journal 's website, were:

	Stock Prices	
	High	Low
2010		
First Quarter	\$ 36.42	\$ 31.20
Second Quarter	39.61	31.41
Third Quarter	37.00	31.24
Fourth Quarter	38.59	33.01
2009		
First Quarter	\$ 38.79	\$ 29.76
Second Quarter	36.40	30.82
Third Quarter	37.42	32.10
Fourth Quarter	36.92	31.58

The closing price of the Common Shares of American States Water Company on the NYSE as reported on the Wall Street Journal 's website on March 9, 2011 was \$34.24

Approximate Number of Holders of Common Shares

As of March 9, 2011, there were 2,776 holders of record of the 18,654,106 outstanding Common Shares of American States Water Company. AWR owns all of the outstanding Common Shares of GSWC, CCWC and ASUS. ASUS owns all of the outstanding stock of the Military Utility Privatization Subsidiaries.

Frequency and Amount of Any Dividends Declared and Dividend Restrictions

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

	2010	2009
First Quarter	\$ 0.26	\$ 0.25
Second Quarter	\$ 0.26	\$ 0.25
Third Quarter	\$ 0.26	\$ 0.25

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Fourth Quarter	\$	0.26	\$	0.26
Total	\$	1.04	\$	1.01

AWR's ability to pay dividends is subject to the requirement in its \$100.0 million revolving credit facility to maintain compliance with all covenants described in footnote (15) to the table in the section entitled *Contractual Obligations, Commitments and Off Balance Sheet Arrangements* included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation. GSWC's maximum ability to pay dividends is restricted by certain Note Agreements to the sum of \$21.0 million plus 100% of consolidated net income from certain dates plus the aggregate net cash proceeds received from capital stock offerings or other instruments convertible into capital stock from various dates. Under the most restrictive of the Note Agreements, \$298.8 million was available from GSWC to pay dividends to AWR as of December 31, 2010. GSWC is also prohibited under the terms of senior notes from paying dividends if, after giving effect to the dividend, its total indebtedness to capitalization ratio (as defined) would be more than 0.6667 to 1. GSWC would have to issue additional debt of \$372.7 million to invoke this covenant as of December 31, 2010.

The ability of AWR, ASUS and GSWC to pay dividends is also restricted by California law. Under the restrictions of the California tests, approximately \$150.2 million of AWR's retained earnings was available to pay dividends to common shareholders at December 31, 2010. Approximately \$141.1 million was available from the retained earnings of GSWC at December 31, 2010 to pay dividends to AWR. Approximately \$2.1 million was available from retained earnings of ASUS at December 31, 2010 to pay dividends to AWR under the California tests.

Table of Contents

CCWC is subject to contractual restrictions on its ability to pay dividends. CCWC's maximum ability to distribute dividends is limited to maintenance of no more than 55% debt in its capital structure for the quarter immediately preceding the distribution. The ability of CCWC to pay dividends is also restricted under Arizona law. Under restrictions of the Arizona tests, approximately \$4.1 million was available to pay dividends to AWR at December 31, 2010. See footnote (6) to the table in the section entitled *Contractual Obligations and Other Commitments* included in Part II, Item 7 in Management's Discussion and Analysis of Financial Conditions and Results of Operation for additional information regarding CCWC's debt.

AWR paid \$19.3 million in common dividends to shareholders for the year ended December 31, 2010, as compared to \$18.1 million for the year ended December 31, 2009. GSWC paid dividends of \$19.6 million and \$19.4 million to AWR in 2010 and 2009, respectively. CCWC and ASUS did not pay any dividends to AWR in 2010 or 2009.

Securities Authorized for Issuance under Equity Compensation Plans

AWR has made stock awards to its executive officers and managers under the 2000 Stock Incentive Plan and the 2008 Stock Incentive Plan. It has also made stock awards to its non-employee directors under the Non-Employee Directors Stock Plan. Information regarding the securities which have been issued and which are available for issuance under these plans are set forth in the table below as of December 31, 2010. This table does not include any common shares that may be issued under our 401(k) plan

Plan Category	(a)(1) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c)(1) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders	726,405	\$ 32.00	997,366
Equity compensation plans not approved by shareholders			
Total	726,405	\$ 32.00	997,366

(1) Amounts shown are for options granted only. At December 31, 2010, there were 48,630 restricted stock units outstanding that had been granted to employees under the 2000 and 2008 Stock Incentive Plans and 57,097 restricted stock units outstanding that had been granted to directors under the 2003 Non-Employee Directors Stock Plan. Each restricted stock unit was issued with dividend equivalent rights until the restricted stock unit vests or is terminated earlier pursuant to the terms of the grant. We may not grant restricted stock units with respect to more than 118,000 of our common shares under the directors plan.

Table of Contents**Other Information**

The shareholders of AWR have approved the material features of all equity compensation plans under which AWR directly issues equity securities. AWR did not directly issue any unregistered equity securities during 2010.

The following table provides information about AWR repurchases of its Common Shares during the fourth quarter of 2010:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased under the Plans or Programs (3)
October 1 - 31, 2010	490	\$ 36.98		NA
November 1 - 30, 2010	157	\$ 37.50		NA
December 1 - 31, 2010	33,114	\$ 34.56		NA
TOTAL	33,761(2)	\$ 34.61		NA

(1) None of the Common Shares were purchased pursuant to any publicly announced stock repurchase program.

(2) Of this amount, 33,100 Common Shares were acquired on the open market for employees pursuant to our 401(k) Plan. The remainder of the Common Shares were acquired on the open market for participants in the AWR's Common Share Purchase and Dividend Reinvestment Plan.

(3) None of these plans contain a maximum number of Common Shares that may be purchased in the open market under the plans. There is no termination date for either of these plans.

Table of Contents**Item 6. Selected Financial Data****AMERICAN STATES WATER COMPANY (AWR):**

(in thousands, except per share amounts)	2010 (4)	2009	2008 (2)	2007	2006
Income Statement Information:					
Total Operating Revenues	\$ 398,942	\$ 353,251	\$ 311,246	\$ 293,666	\$ 260,874
Total Operating Expenses	325,123	284,409	250,308	227,873	206,706
Operating Income	73,819	68,842	60,938	65,793	54,167
Interest Expense	21,636	21,899	20,877	21,102	20,578
Interest Income	2,406	911	1,832	2,321	2,753
Income from Continuing Operations	\$ 31,091	\$ 29,374	\$ 25,996	\$ 27,121	\$ 21,857
Income (loss) from Discontinued Operations, net of tax (3)	\$ 2,106	\$ 157	\$ (3,991)	\$ 909	\$ 1,224
Basic Earnings per Common Share (1):					
Income from Continuing Operations	\$ 1.67	\$ 1.62	\$ 1.50	\$ 1.57	\$ 1.27
Income (loss) from Discontinued Operations (3)	\$ 0.11	\$ 0.01	\$ (0.23)	\$ 0.05	\$ 0.07
Fully Diluted Earnings per Common Share:					
Income from Continuing Operations	\$ 1.66	\$ 1.61	\$ 1.49	\$ 1.56	\$ 1.26
Income (loss) from Discontinued Operations (3)	\$ 0.11	\$ 0.01	\$ (0.23)	\$ 0.05	\$ 0.07
Average Shares Outstanding	18,585	18,052	17,262	17,121	16,934
Average Number of Diluted Shares Outstanding	18,736	18,188	17,394	17,177	17,101
Dividends Declared per Common Share	\$ 1.040	\$ 1.010	\$ 1.000	\$ 0.955	\$ 0.910
Balance Sheet Information:					
Total Assets	\$ 1,192,035	\$ 1,113,293	\$ 1,061,287	\$ 964,675	\$ 936,955
Common Shareholders' Equity	377,541	359,430	310,503	302,129	283,734
Long-Term Debt	299,839	300,221	260,561	260,941	261,248
Total Capitalization	\$ 677,380	\$ 659,651	\$ 571,064	\$ 563,070	\$ 544,982

(1) In accordance with authoritative guidance for the effect of participating securities on earnings per share (EPS) calculations, AWR uses the two-class method of computing EPS for the effects of participating securities. AWR has participating securities related to stock options and stock units that earn dividend equivalents on an equal basis with Common Shares. Net income available for common shareholders excluding earnings available and allocated to participating securities, was \$33,023,000, \$29,399,000, \$21,890,000, \$27,723,000 and \$22,623,000 for the years ended December 31, 2010, 2009, 2008, 2007 and 2006, respectively.

(2) In 2008, results include a \$7.7 million goodwill impairment charge related to CCWC, in accordance with accounting guidance for goodwill and other intangible assets.

(3) On June 7, 2010, AWR entered into a stock purchase agreement with EPCOR Water (USA) Inc. to sell all of the common shares of CCWC for a total purchase price of \$35.0 million, including the assumption of approximately \$6.0 million of long-term debt. The consummation of the transaction contemplated by the agreement is subject to customary conditions, including among other things, regulatory approval by the ACC, which is anticipated to be received in 2011. Therefore, no gain on disposal of CCWC has been recorded during the year ended December 31, 2010. The results of CCWC for all periods included have been presented as a discontinued operation.

(4) In 2010, results include a \$16.6 million charge related to the impairment of assets and loss contingencies in connection with regulatory matters.

GOLDEN STATE WATER COMPANY (GSWC):

(in thousands)	2010 (4)	2009	2008	2007	2006
Income Statement Information:					
Total Operating Revenues	\$ 326,582	\$ 294,119	\$ 268,888	\$ 258,752	\$ 244,425
Total Operating Expenses	262,781	230,633	205,970	194,046	189,123
Operating Income	63,801	63,486	62,918	64,706	55,302
Interest Expense	21,215	21,398	19,651	20,063	19,186
Interest Income	1,914	898	1,774	2,111	2,670
Net Income	\$ 25,110	\$ 25,373	\$ 27,819	\$ 26,900	\$ 23,258
Balance Sheet Information:					
Total Assets	\$ 1,078,478	\$ 1,021,845	\$ 970,150	\$ 889,973	\$ 867,661
Common Shareholder s Equity	358,295	331,530	324,533	278,441	266,965
Long-Term Debt	299,839	300,221	260,561	260,941	261,248
Total Capitalization	\$ 658,134	\$ 631,751	\$ 585,094	\$ 539,382	\$ 528,213

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion and analysis provides information on AWR's consolidated operations and assets and where necessary, includes specific references to AWR's individual segments and/or other subsidiaries: GSWC, CCWC, ASUS and its subsidiaries. Included in the following analysis is a discussion of water and electric margins. Water and electric margins are computed by taking total revenues, less total supply costs. Registrant uses these margins and related percentages as an important measure in evaluating its operating results. Registrant believes this measure is a useful internal benchmark in evaluating the performance of GSWC and CCWC. Registrant reviews these measurements regularly and compares them to historical periods and to our operating budget as approved. However, this measure, which is not presented in accordance with Generally Accepted Accounting Principles (GAAP), may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income, which is determined in accordance with GAAP, as an indicator of operating performance. A reconciliation of water and electric margins to the most directly comparable GAAP measures are included in the table under the section titled *Operating Expenses: Supply Costs*.

Overview

Registrant's revenues, operating income and cash flows are earned primarily through delivering potable water to homes and businesses through approximately 2,900 miles of water distribution pipelines and the delivery of electricity in the Big Bear area of San Bernardino County. Rates charged to customers of GSWC and CCWC are determined by the CPUC and ACC, respectively. These rates are intended to allow recovery of operating costs and a reasonable rate of return on capital. Factors affecting financial performance of our regulated utilities include the process and timing of setting rates charged to customers; the ability to recover, and the process for recovering in rates, the costs of distributing water and electricity and our overhead costs; fines, penalties and disallowances by state regulatory agencies arising from failures to comply with regulatory requirements; weather; the impact of increased water quality standards and environmental regulations on the cost of operations and capital expenditures; pressures on water supply caused by population growth, more stringent water quality standards, deterioration in water quality and water supply from a variety of causes; capital expenditures needed to upgrade water systems and increased costs and risks associated with litigation relating to water quality and water supply, including suits initiated by GSWC to protect its water supply.

Operating revenues and income from contracted services at ASUS and its subsidiaries are earned from the operation and maintenance and renewal and replacement of the water and/or wastewater systems for the U.S. government at various military bases, as well as from construction of new water and/or wastewater facilities at those bases under contract modifications. All of the current contracts with the U.S. government are 50-year firm, fixed-price contracts with prospective price redeterminations. Additional revenues generated by contract operations are primarily dependent on these new construction activities. As a result, ASUS is subject to risks that are different than those of Registrant's public utility water and electric utilities. ASUS plans to continue seeking contracts for the operation and maintenance and renewal and replacement of water and/or wastewater services at military bases. Factors affecting the financial performance of our Military Utility Privatization Subsidiaries include delays in receiving payments from the U.S. government and the redetermination and equitable adjustment of prices under the contracts with the U.S. government; fines, penalties or disallowance of costs by the federal government; and termination of contracts and suspension or debarment for a period of time from contracting with the federal government due to violations of federal law and regulations in connection with military utility privatization activities.

GSWC plans to continue to seek additional rate increases in future years from the CPUC and the U.S. government to recover operating and supply costs and receive reasonable returns on invested capital. Capital expenditures in future years at GSWC are expected to remain at much higher levels than depreciation expense. When necessary, Registrant obtains funds from external sources in the capital markets and through bank borrowings. GSWC plans to issue public debt in 2011, depending on market conditions. Proceeds from the debt issuance are expected to be used to pay down short-term borrowings from AWR which will be used by AWR to reduce borrowings under its \$100.0 million revolving credit facility, and retire other long-term debt with higher interest rates.

On June 7, 2010, AWR entered into a stock purchase agreement with EPCOR Water (USA) Inc. (EPCOR) to sell all the common shares of CCWC for a total purchase price of \$35.0 million, including the assumption of approximately \$6.0 million of long-term debt. Approximately \$29.0 million in cash will be paid to AWR at closing. The purchase price is subject to certain adjustments for changes in retained earnings. The consummation of the transaction contemplated by the agreement is subject to customary conditions, including among other things, regulatory approval by the ACC, which is anticipated to be received in 2011. Therefore, no gain on disposal of CCWC has been recorded in 2010. Had the transaction closed as of December 31, 2010, AWR would have recognized a pretax gain on disposal of approximately \$5.8 million, net of transaction costs of \$708,000. The results of operations of CCWC for 2010, 2009 and 2008 have been presented as a discontinued operation.

Table of Contents

On November 19, 2010, the CPUC issued a final decision on GSWC's Region II, Region III and general office rate case. The CPUC approved revenue increases for 2010 of approximately \$33.0 million as compared to 2009 adopted revenues, including an increase of \$14.0 million for supply costs. The rate increases were retroactive to January 1, 2010. The \$33.0 million revenue increase included approximately \$12.2 million already collected in 2010 as of the date of the decision through a supply cost offset surcharge (in effect since 2009). Effective January 1, 2011, a twenty-four month surcharge is in effect to collect the remaining uncollected retroactive portion of the revenue increase, which totals approximately \$19.5 million, and has been recorded as a regulatory asset as of December 31, 2010.

The CPUC also authorized GSWC to establish a two-way balancing account to track differences between the forecasted annual pension expenses adopted in rates for calendar years 2010, 2011 and 2012 and the actual annual expense to be recorded by GSWC's water regions in accordance with the accounting guidance for pension costs. As a result, GSWC recorded \$1.8 million to the pension balancing account in the fourth quarter of 2010, which reduces operating expenses.

Had the new rates from the final decision been in place on January 1, 2010, the impact by quarter to diluted earnings per share from continuing operations would be as follows:

Impact by Quarter	Fully Diluted EPS from Continuing Operations As Reported	Impact of Retroactive Rates	Adjusted Fully Diluted EPS (2)
First Quarter (1)	\$ 0.44	\$ 0.04	\$ 0.48
Second Quarter	0.47	0.11	0.58
Third Quarter (3)	0.30	0.15	0.45
Fourth Quarter (3)	0.44	(0.30)	0.14
Year ended December 31, 2010 (4)	\$ 1.66	\$	\$ 1.66

(1) During the first quarter of 2010, ASUS recorded an increase to pretax income of \$6.1 million, or \$0.19 per share, reflecting approval from the U.S. government of requests for equitable adjustment, which were retroactive, for managing more infrastructure than originally estimated by the government in its solicitation of bids for operation of the water and wastewater facilities at Fort Bragg in North Carolina and Fort Bliss in Texas.

(2) Adjusted fully diluted EPS: This measure is not presented in accordance with GAAP, may not be comparable to similarly titled measures used by other entities, and should not be considered as an alternative measurement to EPS. Registrant has presented this information as we believe this measure is a useful benchmark in assessing its performance on a quarterly basis had the CPUC decision been in effect as of January 1, 2010. In 2008 and 2009 increased rates were in effect for the entire fiscal year.

(3) During the third and fourth quarters of 2010, a pretax charge for the impairment of assets and loss contingencies were recorded totaling \$0.32 and \$0.23 per share, respectively.

(4) The sum of the quarterly 2010 diluted earnings per share and adjusted fully diluted EPS do not agree to the yearly totals due to rounding.

On February 15, 2007, the CPUC issued a subpoena to GSWC in connection with an investigation of certain work orders and charges paid to a specific contractor used previously by GSWC for numerous construction projects estimated to total \$24.0 million completed over a period of 14 years. The CPUC's investigation focuses on whether GSWC was overcharged for these construction projects and whether these overcharges, if any, were included in customer rates.

Should the CPUC investigation result in a disallowance of certain previously capitalized costs, such costs, and potentially any return earned on such costs, may be required to be refunded to customers resulting in a charge to operating income. In addition to the disallowance of previously capitalized costs and the return earned on such costs, the CPUC also has the authority to assess fines and penalties. The staff of the CPUC has indicated to GSWC that it intends to seek such remedies, including possibly a fine and penalty. GSWC does not believe that a disallowance is required or that a penalty is justified. GSWC intends to vigorously defend the matter; however, proceedings such as this are difficult to predict and a final outcome is unknown. While reserving all rights, management believes it prudent to reserve for a probable loss related to this matter. The reserve estimates for this matter are subject to change as additional information becomes known. However, at this point, management does not expect increases in its recorded estimated reserve.

As a result of management's assessment of the CPUC subpoena matter and the disallowance by the CPUC of costs associated with certain construction projects in its final decision on the Region II, Region III and general office rate case, GSWC recorded a pretax charge for the impairment of assets and loss contingencies totaling \$16.6 million, or \$0.55 per share, in 2010. These reserve estimates may be adjusted as additional information becomes known.

Table of Contents

For 2010, net income from continuing operations was \$31.1 million compared to \$29.4 million in 2009, an increase of 5.8%. Diluted earnings per share from continuing operations for 2010 were \$1.66 compared to \$1.61 in 2009, an increase of \$0.05 per share. Earnings for 2010 were largely impacted by: (i) a pretax charge of \$16.6 million, or \$0.55 per share, for the impairment of assets and loss contingencies discussed previously, and (ii) pretax income of \$6.1 million, or \$0.19 per share, recorded during the first quarter of 2010 reflecting approval from the U.S. government of requests for equitable adjustment, that were retroactive, for managing more infrastructure than originally estimated by the government in its solicitation of bids for operation of the water and wastewater facilities at Fort Bragg in North Carolina and Fort Bliss in Texas. Excluding the effects of these two significant items, adjusted fully diluted earnings from continuing operations (a non-GAAP measure) for 2010 would have been \$2.02 per share, an increase of \$0.41 per share.

Contributing to the remaining increase of \$0.41 per share were the following items, all of which are more fully discussed below: (i) an increase in the water dollar margin of \$16.0 million, or \$0.51 per share, during the year ended December 31, 2010 compared to the same period of 2009 due primarily to rate increases approved by the CPUC; (ii) an increase in the electric dollar margin of \$6.8 million, or \$0.21 per share, due primarily to rate increases approved by the CPUC; and (iii) an increase in interest income (net of interest expense) of \$1.3 million, or \$0.04 per share, related to a proposed settlement reached with the Internal Revenue Service related to AWR's refund claims associated with a tax-method change.

These increases to adjusted fully diluted earnings per share were partially offset by: (i) an increase in operating expenses, other than supply costs, at our water and electric utilities of \$6.3 million, or \$0.20 per share; (ii) a decrease in other income of \$684,000, or \$0.02 per share, due primarily to losses incurred at one of AWR's investments, accounted for by the equity method; (iii) a decrease in ASUS' pretax operating income of \$0.02 per share (excluding the impact of the approved requests for equitable adjustments previously discussed) due to higher allocated costs from the corporate headquarters and lower profit margins on certain capital projects at Fort Bragg and one of the military bases in Virginia due to higher than expected construction costs resulting from unexpected site conditions; (iv) a change in enacted state tax law during the first quarter of 2009 which resulted in a tax benefit of \$918,000, or \$0.05 per share which did not recur in 2010; (v) an increase in the effective tax rate (excluding the tax benefit previously discussed) for the year ended December 31, 2010 as compared to the same period in 2009, negatively impacting earnings by \$0.02 per share due primarily to changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements and other nondeductible permanent items; and (vi) a decrease of \$0.04 per share due to an increase in the weighted average number of common shares outstanding resulting from the issuance of 1.1 million shares of AWR's Common Shares in a public offering completed in May 2009.

Income from discontinued operations of \$2.1 million for the year ended December 31, 2010 includes \$426,000 (net of tax) of legal and consulting costs related to the pending CCWC sale transaction. Excluding these transaction costs, CCWC's net income improved by \$2.4 million as compared to 2009 due primarily to: (i) an increase in the water margin of \$1.3 million due primarily to higher water rates implemented in October 2009 as a result of the approval by the ACC of CCWC's general rate case; (ii) lower depreciation expense of \$1.3 million as a result of reporting CCWC as a discontinued operation, resulting in no further depreciation being recorded in accordance with generally accepted accounting principles; (iii) a pretax loss of \$760,000 recorded in the third quarter of 2009 resulting from a decision issued by the ACC in October 2009 related to a settlement for removal of a well from service, that did not recur in 2010; and (iv) lower other operating costs, including maintenance expense.

Table of ContentsSummary Results by Segment

AWR has three reportable segments: water, electric and contracted services. Within the segments, AWR has two principal business units included in continuing operations: water and electric service utility operations conducted through GSWC, and contracted services conducted through ASUS and its subsidiaries. As previously discussed, in June 2010, AWR entered into a stock purchase agreement to sell all the common shares of CCWC. Accordingly, the results of operations of CCWC have been reported in discontinued operations. The tables below set forth summaries of the results by segment (in thousands) for AWR's continuing operations:

	Operating Revenues				Pretax Operating Income			
	Year Ended 12/31/2010	Year Ended 12/31/2009	\$ CHANGE	% CHANGE	Year Ended 12/31/2010	Year Ended 12/31/2009	\$ CHANGE	% CHANGE
Water	\$ 290,781	\$ 265,197	\$ 25,584	9.6%	\$ 57,018	\$ 63,124	\$ (6,106)	-9.7%
Electric	35,801	28,922	6,879	23.8%	5,680	(553)	6,233	1127.1%
Contracted services	72,360	59,132	13,228	22.4%	11,487	6,358	5,129	80.7%
AWR parent					(366)	(87)	(279)	-320.7%
Totals from operation	\$ 398,942	\$ 353,251	\$ 45,691	12.9%	\$ 73,819	\$ 68,842	\$ 4,977	7.2%

Water - For the year ended December 31, 2010, pretax operating income for water decreased by \$6.1 million, or 9.7%, primarily due to a \$16.6 million pretax charge for the impairment of assets and loss contingencies, previously discussed. There were also \$5.5 million in increases in other operating expenses (other than supply costs), largely due to additional depreciation expense as a result of the CPUC's final decision issued in November 2010 on the Region II, Region III and general office rate case. These increases in operating expenses were partially offset by a \$16.0 million increase in the dollar water margin, also largely as a result of the approved decision on the Region II, Region III and general office rate case.

Electric For the year ended December 31, 2010, pretax operating income from electric operations increased by \$6.2 million due to increases in rates which went into effect in November 2009 and January 2010 and generated approximately \$5.7 million in revenues. In addition, as a result of the Base Revenue Requirement Adjustment Mechanism (BRRAM), which also went into effect in November 2009, BVES recorded additional revenues due to lower customer usage as compared to adopted levels authorized by the CPUC. Also, in March 2010, the CPUC approved for recovery a memorandum account which tracked the difference between the 2007 adopted general office cost allocation to BVES and the 1996 adopted general office cost allocation, effective and retroactive from June 4, 2009 to October 31, 2009. As a result, during the first quarter of 2010, BVES recorded a regulatory asset of \$958,000 and a corresponding increase to revenues for amounts included in this memorandum account.

Contracted Services Revenues from contracted services are composed of construction revenues and management fees for operating and maintaining the water and/or wastewater systems at military bases. For the year ended December 31, 2010, pretax operating income for contracted services increased by \$5.1 million, or \$0.16 per share, primarily due to contract modifications approved by the U.S. government during 2010 in connection with requests for equitable adjustment previously filed at Fort Bliss in Texas, Fort Jackson in South Carolina and Fort Bragg in North Carolina. In addition, there was a contract modification for an interim rate increase pending resolution of the first price redetermination which included approximately \$700,000 in retroactive management fee revenues at Andrews Air Force Base in Maryland. The approved REA's and contract modifications totaled \$7.0 million in additional revenues for 2010. In addition, there was an overall increase in construction activities as compared to the same period in 2009 at Fort Bragg and Fort Jackson. These increases were partially offset by decreased construction activity at Fort Bliss, Andrews Air Force Base, and the military bases in Virginia. Also, in 2009 the government approved a \$1.1 million REA related to Fort Jackson for emergency construction costs. Earnings and cash flows from modifications to the original 50-year contracts with the U.S. government for additional construction activity may or may not continue in future periods. For further

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discussion on the status of price redeterminations and requests for equitable adjustments, see section titled *Contracted Services* presented later.

The following discussion and analysis for the years ended December 31, 2010, 2009 and 2008 provides information on AWR's consolidated operations and assets and where necessary, includes specific references to AWR's individual segments and/or other continuing subsidiaries: GSWC and ASUS and its subsidiaries, and the discontinued operations of CCWC.

Table of Contents**Consolidated Results of Operations - Years Ended December 31, 2010 and 2009 (amounts in thousands):**

	Year Ended 12/31/2010	Year Ended 12/31/2009	\$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	\$ 290,781	\$ 265,197	\$ 25,584	9.6%
Electric	35,801	28,922	6,879	23.8%
Contracted services	72,360	59,132	13,228	22.4%
Total operating revenues	398,942	353,251	45,691	12.9%
OPERATING EXPENSES				
Water purchased	46,865	44,973	1,892	4.2%
Power purchased for pumping	9,113	9,658	(545)	-5.6%
Groundwater production assessment	11,473	11,563	(90)	-0.8%
Power purchased for resale	13,078	12,853	225	1.8%
Supply cost balancing accounts	20,622	12,434	8,188	65.9%
Other operation expenses	29,184	28,808	376	1.3%
Administrative and general expenses	87,135	69,051	18,084	26.2%
Depreciation and amortization	37,405	31,531	5,874	18.6%
Maintenance	18,149	17,012	1,137	6.7%
Property and other taxes	14,165	12,824	1,341	10.5%
ASUS construction expenses	38,577	33,717	4,860	14.4%
Net gain on sale of property	(643)	(15)	(628)	4186.7%
Total operating expenses	325,123	284,409	40,714	14.3%
OPERATING INCOME	73,819	68,842	4,977	7.2%
OTHER INCOME AND EXPENSES				
Interest expense	(21,636)	(21,899)	263	-1.2%
Interest income	2,406	911	1,495	164.1%
Other	(463)	221	(684)	-309.5%
	(19,693)	(20,767)	1,074	-5.2%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	54,126	48,075	6,051	12.6%
Income tax expense	23,035	18,701	4,334	23.2%
INCOME FROM CONTINUING OPERATIONS	31,091	29,374	1,717	5.8%
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	2,106	157	1,949	1241.4%
NET INCOME	\$ 33,197	\$ 29,531	\$ 3,666	12.4%
Basic earnings from continuing operations	\$ 1.67	\$ 1.62	\$ 0.05	3.1%
Basic earnings from discontinued operations	0.11	0.01	0.10	1000.0%
	\$ 1.78	\$ 1.63	\$ 0.15	9.2%
Diluted earnings from continuing operations	\$ 1.66	\$ 1.61	\$ 0.05	3.1%
Diluted earnings from discontinued operations	0.11	0.01	0.10	1000.0%
	\$ 1.77	\$ 1.62	\$ 0.15	9.3%

Table of Contents

Net income from continuing operations for the year ended December 31, 2010 was \$31.1 million, equivalent to \$1.67 and \$1.66 per common share on a basic and fully diluted basis, respectively, compared to \$29.4 million, or \$1.62 and \$1.61 per common share on a basic and fully diluted basis, respectively, for the year ended December 31, 2009. Impacting the comparability in the results of the two periods are the following items which increased diluted earnings per share by \$0.05:

- An increase in the water margin of \$16.0 million, or \$0.51 per share, during the year ended December 31, 2010 compared to the same period of 2009 due primarily to higher water rates approved by the CPUC effective January 1, 2010 in connection with the Region II, Region III and General Office rate case. Based on this decision, the approved revenue increases for 2010 totaled approximately \$33.0 million as compared to 2009 adopted revenues, which included an increase of \$14.0 million for supply costs, and was retroactive to January 1, 2010.
- An increase in the electric margin of \$6.8 million, or \$0.21 per share, during the year ended December 31, 2010 as compared to the same period of 2009. The increase was primarily due to: (i) increases in rates in November 2009 and January 2010 related to BVES general rate case approved by the CPUC which generated an increase of approximately \$5.7 million in revenues; (ii) the recording of additional revenues in the BRRAM due to lower customer usage as compared to adopted levels authorized by the CPUC; and (iii) the CPUC approval in March 2010 for recovery of \$958,000 in a memorandum account which tracked the difference between the 2007 adopted general office cost allocation to BVES and the 1996 adopted general office cost allocation to BVES.
- A pretax charge of \$16.6 million, or \$0.55 per share, at GSWC for the impairment of assets and loss contingencies resulting from regulatory matters previously discussed, which may be adjusted as additional information becomes known.
- Excluding the pretax charge for the impairment of assets and loss contingencies discussed above, operating expenses, other than supply costs, increased by \$6.3 million, or \$0.20 per share, at our water and electric utility businesses for the year ended December 31, 2010. The increase was primarily due to an increase in: (i) administrative and general expenses of \$5.2 million due to higher labor and employee related costs as well as transportation expenses; (ii) depreciation and amortization expenses of \$5.7 million; (iii) maintenance and other operating expenses of \$1.7 million; and (iv) property and other taxes of \$1.1 million. These increases were partially offset by: (i) a \$3.8 million pretax charge during the fourth quarter of 2009 related to legal and settlement costs in connection with a settlement agreement reached between the Company and two former officers that did not recur in 2010; (ii) a decrease in pension expense of \$3.0 million largely due to the effect of implementing a two-way pension balancing account at GSWC's water regions; and (iii) an increase of \$628,000 in pretax gain on the sale of property primarily due to the sale in 2010 of a well in one of GSWC's water regions.
- An increase in pretax operating income for contracted services of \$5.1 million, or \$0.16 per share, for the year ended December 31, 2010 due primarily to contract modifications received from the U.S. government resolving requests for equitable adjustment and for retroactive interim increases in management fees. In addition, there was an increase in total construction activity during 2010 as compared to 2009.
- An increase in interest income (net of interest expense) of \$1.8 million, or \$0.05 per share, primarily related to a proposed settlement reached with the Internal Revenue Service related to AWR's refund claims associated with a tax-method change.

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- A decrease in other income of \$684,000, or \$0.02 per share, due primarily to losses incurred at one of AWR's investments, accounted for by the equity method.

- An increase in income tax expense for the year ended December 31, 2010 as compared to the same period in 2009 primarily due to: (i) a change in enacted state tax law during the first quarter of 2009 which resulted in a tax benefit of \$918,000, or \$0.05 per share which did not recur in 2010; and (ii) an increase in the effective tax rate (excluding the tax benefit mentioned previously) for the year ended December 31, 2010 as compared to the same period in 2009, negatively impacting earnings by \$0.02 per share primarily resulting from changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements and other nondeductible permanent items.

- A decrease of \$0.04 per share due to an increase in the weighted average number of common shares outstanding resulting from the issuance of 1.1 million shares of AWR's Common Shares in a public offering completed in May 2009.

Table of Contents

Net income from discontinued operations for the year ended December 31, 2010 was \$2.1 million, equivalent to \$0.11 per common share on a fully diluted basis, compared to net income of \$157,000 or \$0.01 per common share on a basic and fully diluted basis, for the year ended December 31, 2009, an increase of \$0.10 per common share. The improved performance at CCWC was primarily due to rate increases approved by the ACC in October 2009 and a decrease in operating expenses as compared to 2009.

Operating Revenues

Water

For the year ended December 31, 2010, revenues from water operations increased by 9.6% to \$290.8 million, compared to \$265.2 million for the year ended December 31, 2009. As previously discussed, the final decision in the Region II, Region III and general office rate case increased water revenues by \$33.0 million as compared to the 2009 adopted revenue levels. Revenues also increased in 2010 as a result of the impact of a full year of the Water Revenue Adjustment Mechanism (WRAM) in effect at Region I, which was implemented in September 2009. These increases were partially offset by the recording of \$3.1 million in the Water Conservation Memorandum Accounts for GSWC's water regions in 2009 and \$4.3 million in surcharges in effect that were approved by the CPUC to recover previously incurred under-collections in supply costs, both of which were not part of the original 2009 adopted revenues.

While water sales in 2010 continue to be impacted by state wide conservation and rationing efforts, earnings have not been negatively impacted by the reduction in water sales as GSWC has implemented the WRAM in all three water regions as authorized by the CPUC. During 2010, consumption was lower by 8.4% as compared to 2009. GSWC's revenue requirement and volumetric revenues will be adopted as part of a general rate case (GRC) every three years. The recently approved Region II, Region III and general office GRC is effective for years 2010, 2011 and 2012. On December 16, 2010, the CPUC issued a final decision on GSWC's Region I GRC for new rates in 2011 and 2012. GSWC will file a GRC for all three water regions in July of 2011 with rates expected to be effective January 2013.

Electric

For the year ended December 31, 2010, revenues from electric operations increased by 23.8% to \$35.8 million compared to \$28.9 million for the year ended December 31, 2009 due primarily to rate increases implemented in November 2009 and January 2010 as approved by the CPUC which added approximately \$5.7 million in electric revenues in 2010 and the implementation of the Base Revenue Requirement Adjustment Mechanism, adopted in November 2009. Also, as previously discussed, in March 2010, the CPUC approved for recovery a memorandum account which tracked the difference between the 2007 adopted general office cost allocation to BVES and the 1996 adopted general office cost allocation, effective and retroactive from June 4, 2009 to October 31, 2009. As a result, during the first quarter of 2010, BVES recorded a \$958,000 increase to electric revenues for amounts included in this memorandum account.

Registrant's regulated businesses rely upon rate approvals by the CPUC to provide for a return on invested and borrowed capital used to fund utility plant additions. If adequate rate relief is not granted in a timely manner, operating revenues and earnings can be negatively impacted.

Contracted Services

Revenues from contracted services are comprised of management fees for operating and maintaining (O&M) the water and/or wastewater systems at military bases and construction revenues (including renewals and replacements) on these systems. For the year ended December 31, 2010, revenues from contracted services increased by \$13.2 million, or 22.4%, to \$72.4 million compared to \$59.1 million for the year ended December 31, 2009 due to: (i) an increase of \$8.1 million in O&M management fees, and (ii) an increase of \$5.1 million in construction revenues.

For the year ended December 31, 2010, management fees increased by \$8.1 million due primarily to contract modifications received from the U.S. government for operating and maintaining the water and wastewater systems at Fort Bliss and Fort Bragg that resulted in the recording of O&M revenues totaling \$5.6 million, which were retroactive from the commencement of the contracts in October 2004 and March 2008, respectively, through December 31, 2009. The increased O&M fees established by the contract modification for Fort Bragg added an additional \$1.5 million in revenues related to 2010. There was also an increase in management fees at Andrews Air Force Base due primarily to the execution of a contract modification in August 2010 which provided for an interim adjustment pending resolution of the first price redetermination. As a result, there was a retroactive adjustment to the O&M revenue to February 2008, the first redetermination date, of approximately \$700,000 which was recorded during the third quarter of 2010. Some or the entire amount may be subject to refund depending on the outcome of the negotiations on the price redetermination. Finally, there was an increase in management fees of \$782,000 related to a contract with a municipality to provide billing and meter reading services. This contract will terminate effective April 1, 2011.

Table of Contents

For the year ended December 31, 2010, construction revenues increased by \$5.1 million due primarily to an increase in construction activities at Fort Bragg in North Carolina and Fort Jackson in South Carolina, partially offset by decreases in construction revenues at the other military bases.

Earnings and cash flows from amendments and modifications to the original 50-year contracts with the U.S. government may or may not continue in future periods. ASUS relies upon price redeterminations and equitable adjustments by the U.S. government in order to recover operating expenses and profit margin. If adequate price redeterminations and adjustments are not granted in a timely manner, operating revenues and earnings can be negatively impacted.

*Operating Expenses:**Supply Costs*

Supply costs for the water segment consist of purchased water, purchased power for pumping, groundwater production assessments and water supply cost balancing accounts. Supply costs for the electric segment consist of purchased power for resale (including the cost of natural gas) and the electric supply cost balancing account. Water and electric margins are computed by taking total revenues, less total supply costs. Registrant uses these margins and related percentages as an important measure in evaluating its operating results. Registrant believes this measure is a useful internal benchmark in evaluating the utility business performance within its water and electric segments. Registrant reviews these measurements regularly and compares them to historical periods and to our operating budget as approved. However, this measure, which is not presented in accordance with GAAP, may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income, which is determined in accordance with GAAP, as an indicator of operating performance.

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for 31.1% and 32.2% of total operating expenses for the year ended December 31, 2010 and 2009, respectively.

The table below provides the amount of increases (decreases), percent changes in supply costs, and margins during the years ended December 31, 2010 and 2009 (amounts in thousands):

		Year Ended 12/31/2010		Year Ended 12/31/2009		\$ CHANGE		% CHANGE
WATER OPERATING REVENUES (1)	\$	290,781	\$	265,197	\$	25,584		9.6%
WATER SUPPLY COSTS:								
Water purchased (1)		46,865		44,973	\$	1,892		4.2%
Power purchased for pumping (1)		9,113		9,658		(545)		-5.6%
Groundwater production assessment (1)		11,473		11,563		(90)		-0.8%
Water supply cost balancing accounts (1)		17,625		9,296		8,329		89.6%
TOTAL WATER SUPPLY COSTS	\$	85,076	\$	75,490	\$	9,586		12.7%
WATER MARGIN (2)	\$	205,705	\$	189,707	\$	15,998		8.4%

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PERCENT MARGIN - WATER		70.7%		71.5%		
ELECTRIC OPERATING REVENUES (1)	\$	35,801	\$	28,922	\$	6,879
ELECTRIC SUPPLY COSTS:						
Power purchased for resale (1)		13,078		12,853	\$	225
Electric supply cost balancing accounts (1)		2,997		3,138		(141)
TOTAL ELECTRIC SUPPLY COSTS	\$	16,075	\$	15,991	\$	84
ELECTRIC MARGIN (2)	\$	19,726	\$	12,931	\$	6,795
PERCENT MARGIN - ELECTRIC		55.1%		44.7%		

Table of Contents

(1) As reported on AWR's Consolidated Statements of Income, except for supply cost balancing accounts. The sum of water and electric supply cost balancing accounts in the table above is shown on AWR's Consolidated Statements of Income and totaled \$20,622,000 and \$12,434,000 for the years ended December 31, 2010 and 2009, respectively.

(2) Water and electric margins do not include any depreciation and amortization, maintenance expense or other operating expenses.

Two of the principal factors affecting water supply costs are the amount of water produced and the source of the water. Generally, the variable cost of producing water from wells is less than the cost of water purchased from wholesale suppliers. On August 21, 2008, the CPUC issued a final decision which approved the establishment of a modified cost balancing account or MCBA that allows recovery of supply costs for changes in water supply mix. GSWC implemented the MCBA in late November 2008 for Regions II and III and in September 2009 for Region I's rate-making areas in connection with the new conservation rate design and the implementation of a WRAM. Under the MCBA, GSWC began tracking adopted expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. Variances (which include the effects of changes in both rate and volume) between adopted and actual purchased water, purchased power, and pump tax expenses are recorded as a component of the supply cost balancing account provision. The amount of such variances will be recovered from or refunded to GSWC's customers at a later date. This is reflected with an offsetting entry to a regulatory asset or liability balancing account (tracked individually for each water ratemaking area).

For the year ended December 31, 2010, 34.7% of GSWC's water supply mix was purchased as compared to 36.9% purchased for the year ended December 31, 2009. However, as noted previously, GSWC implemented the MCBA which eliminates the effects on earnings of changes in the water supply mix. The adopted percentages of purchased water for the year ended December 31, 2010 at Regions I, II and III were 23.4%, 55.0% and 39.2%, respectively, as compared to actual purchased water of 20.7%, 39.5% and 41.3%, respectively, for 2010. Region I's supply mix consists primarily of pumped water. The variance in Region I's and Region II's actual mix compared to the mix approved by the CPUC resulted in an over-collection in the MCBA account. This caused an overall decrease in the water margin percentage to 70.7% for 2010 compared to 71.5% in 2009 since GSWC no longer receives any benefit from a more favorable supply mix than that approved by the CPUC.

Purchased water costs for the year ended December 31, 2010 increased by 4.2% to \$46.9 million as compared to \$45.0 million in 2009. The increase in purchased water costs was due to higher water rates charged by wholesale suppliers, partially offset by lower customer usage. GSWC's customer water usage decreased 8.4% in 2010 as compared to 2009.

For the year ended December 31, 2010, power purchased for pumping decreased to \$9.1 million, compared to \$9.7 million for 2009. This was due to lower customer demand, partially offset by increases in supplier rates. There were also changes in the actual supply mix, as discussed above. Groundwater production assessments were \$11.5 million in 2010, as compared to \$11.6 million in 2009. This slight decrease was due to lower customer usage offset by increases in assessment rates (pump tax rates) levied against groundwater production, effective July 2010. The MCBA tracks the changes in pump taxes for future recovery/refund in water rates.

An increase of \$8.3 million in the water supply cost balancing account provision during the year ended December 31, 2010 as compared to the same period in 2009, was primarily due to a \$6.0 million increase in the amortization of previously incurred supply costs from surcharges currently in effect at all three GSWC water regions. Once in rates, the amortization of surcharges that are in place to recover under-collections from customers have the effect of increasing the supply cost balancing account and increasing revenues, resulting in no earnings impact. In addition, there was an increase of \$2.3 million in 2010 due to a lower actual supply mix compared to the mix approved by the CPUC, resulting

in an over-collection in the MCBA accounts.

For the year ended December 31, 2010, the cost of power purchased for resale to customers in GSWC's BVES division increased slightly by 1.8% to \$13.1 million compared to \$12.9 million for the year ended December 31, 2009 reflecting a higher fixed energy price during 2010 pursuant to purchased power contracts effective January 1, 2009. The main product under the contracts provides for 13 MWs of electric energy at a fixed price of \$67.85 per MWh during 2010 as compared to \$63.75 per MWh during 2009. The difference between the price of purchased power and the \$77 per MWh as authorized by the CPUC is reflected in the electric supply cost balancing. The increase in energy cost was partially offset by a 3.1% decrease in electric usage by GSWC's electric customers.

Table of Contents***Other Operation Expenses***

The primary components of other operation expenses include payroll, materials and supplies, chemicals and water treatment, and outside service costs of operating the regulated water systems, including the costs associated with water transmission and distribution, pumping, water quality, meter reading, billing, and operations of district offices. Registrant's electric and contracted services operations incur many of the same types of costs as well. For the years ended December 31, 2010 and 2009, other operation expenses by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2010	Year Ended 12/31/2009	\$ CHANGE	% CHANGE
Water Services	\$ 23,388	\$ 23,067	\$ 321	1.4%
Electric Services	2,220	2,324	(104)	-4.5%
Contracted Services	3,576	3,417	159	4.7%
Total other operation expenses	\$ 29,184	\$ 28,808	\$ 376	1.3%

For the year ended December 31, 2010, other operation expenses for water and electric services increased by \$217,000, or 0.9%, primarily due to an increase in water conservation educational materials and supplies of \$1.1 million as a result, in large part, to the expensing of these costs at Region III. In 2010, GSWC began expensing conservation costs in Region III pursuant to an agreement previously reached with the CPUC. Prior to 2010, conservation costs in Region III were capitalized and recovered in rate base. Regions I and II have expensed conservation costs since 2007. There was also an increase of \$340,000 in water treatment and other related supply costs. These increases were partially offset by a \$676,000 decrease in outside services, a \$487,000 decrease in labor and related benefits, and a decrease of \$60,000 in miscellaneous other operation expenses.

Contracted services experienced an increase in other operation expenses of \$159,000 due to an increase of \$866,000 in labor and related benefits costs resulting from addition of staff and annual performance-based wage adjustments effective January 1, 2010, partially offset by a decrease of \$685,000 in outside services costs (due to more work being performed internally) and \$22,000 in other miscellaneous operation expenses.

Administrative and General Expenses

Administrative and general expenses include payroll related to administrative and general functions, the related employee benefits charged to expense accounts, insurance expenses, outside legal and consulting fees, regulatory utility commission expenses, expenses associated with being a public company, and general corporate expenses. For the years ended December 31, 2010 and 2009, administrative and general expenses by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended 12/31/2010	Year Ended 12/31/2009	\$ CHANGE	% CHANGE
Water Services	\$ 64,716	\$ 50,624	\$ 14,092	27.8%
Electric Services	7,950	7,312	638	8.7%
Contracted Services	14,103	11,028	3,075	27.9%

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AWR (parent)		366		87		279		320.7%
Total administrative and general expenses	\$	87,135	\$	69,051	\$	18,084		26.2%

For the year ended December 31, 2010, administrative and general expenses increased by \$14.1 million in water services compared to the year ended December 31, 2009 due primarily to a \$16.6 million pretax charge recorded in 2010 for the impairment of assets and loss contingencies related to regulatory matters previously discussed. There was also an increase in: (i) labor and other employee related benefits of \$3.0 million due primarily to higher wages; and (ii) transportation

Table of Contents

expense of \$1.7 million due primarily to the higher depreciation rates for vehicles approved by the CPUC in the recent Regions II and III rate case. Depreciation expense on vehicles is included in transportation expenses in accordance with CPUC guidelines. These increases were partially offset by: (i) a decrease in pension expense of \$2.9 million as a result of the two-way pension balancing account implemented in 2010 authorized by the CPUC; (ii) a settlement agreement reached with two former officers of GSWC which resulted in a charge of \$3.8 million during the fourth quarter of 2009 for legal and settlement costs; (iv) a decrease in data transmission line costs of \$197,000; and (iv) a net decrease of \$303,000 in other miscellaneous administrative and general expenses.

For the year ended December 31, 2010, administrative and general expenses increased by \$638,000 in electric services compared to the year ended December 31, 2009. This was primarily due to a \$1.0 million settlement agreement reached with Mirant Energy Trading, LLC, the proceeds of which were recorded as a reduction of legal costs in 2009. There was also an increase of \$259,000 in labor costs and other related benefits. These increases were partially offset by: (i) a decrease of \$486,000 in regulatory and other consulting services resulting from the completion of the general rate case approved in October 2009; (ii) a decrease of \$104,000 in pension costs; and (iii) a \$31,000 decrease in other miscellaneous administrative expenses.

There was an increase of \$3.1 million in administrative and general expenses for contracted services due primarily to: (i) an increase of \$766,000 in legal and consulting services relating to filings with the U.S. government and responding to the grand jury subpoena discussed earlier; (ii) an increase of \$352,000 in labor costs and related employee benefits resulting from staff additions and annual performance-based wage adjustments effective January 1, 2010; (iii) an increase of \$1.6 million in allocation of costs from the corporate headquarters to ASUS; (iv) an increase of \$211,000 in supplies and material costs; and (v) an increase of \$146,000 in other miscellaneous expenses.

Depreciation and Amortization

For the years ended December 31, 2010 and 2009, depreciation and amortization by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2010	Year Ended 12/31/2009	\$ CHANGE	% CHANGE
Water Services	\$ 34,360	\$ 28,609	\$ 5,751	20.1%
Electric Services	2,240	2,258	(18)	-0.8%
Contracted Services	805	664	141	21.2%
Total depreciation and amortization	\$ 37,405	\$ 31,531	\$ 5,874	18.6%

For the year ended December 31, 2010, depreciation and amortization expense for water and electric services increased by \$5.7 million to \$36.6 million compared to \$30.9 million for year ended December 31, 2009. This increase was due to higher composite depreciation rates for Regions II and III as a result of the CPUC's final decision issued in November 2010, which was retroactive to January 1, 2010. In addition, there were \$82.8 million of additions to utility plant during 2009. Registrant anticipates that depreciation expense will continue to increase due to ongoing construction at its regulated subsidiaries. Registrant believes that depreciation expense related to property additions approved by the CPUC will be recovered through water and electric rates.

There was an increase in depreciation and amortization expense for contracted services due primarily to the addition of fixed assets during 2009 and 2010.

Table of Contents***Maintenance***

For the years ended December 31, 2010 and 2009, maintenance expense by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2010	Year Ended 12/31/2009	\$ CHANGE	% CHANGE
Water Services	\$ 15,011	\$ 13,440	\$ 1,571	11.7%
Electric Services	830	878	(48)	-5.5%
Contracted Services	2,308	2,694	(386)	-14.3%
Total maintenance	\$ 18,149	\$ 17,012	\$ 1,137	6.7%

For the year ended December 31, 2010, maintenance expense for water services increased by \$1.6 million to \$15.0 million compared to \$13.4 million for the year ended December 31, 2009 due primarily to an increase in planned maintenance on wells, water supply and distribution facilities at all of GSWC's water regions.

There was a decrease of \$48,000 in maintenance expenses for electric services related to the 8.4 MW natural gas-fueled generation plant.

A decrease of \$386,000 in contracted services maintenance expense was due to lower labor and outside services costs. Internal labor activity for 2010 was focused more on operations-related work and less on maintenance activity.

Property and Other Taxes

For the years ended December 31, 2010 and 2009, property and other taxes by segment, consisted of the following (amounts in thousands):

	Year Ended 12/31/2010	Year Ended 12/31/2009	\$ CHANGE	% CHANGE
Water Services	\$ 11,855	\$ 10,855	\$ 1,000	9.2%
Electric Services	806	713	93	13.0%
Contracted Services	1,504	1,256	248	19.7%
Total property and other taxes	\$ 14,165	\$ 12,824	\$ 1,341	10.5%

For the year ended December 31, 2010, property and other taxes for water and electric services increased by \$1.1 million, due in part to a tax refund of \$488,000 recorded in the second quarter of 2009 resulting from lower reassessed property values that was not repeated in 2010. There was also an increase in payroll taxes due to increased labor costs and an increase in franchise fees as a result of an increase in water revenues.

Property and other taxes were higher in contracted services due primarily to an increase in gross receipts taxes at ONUS. This increase was due primarily to the \$3.0 million in management fees approved in the request for equitable adjustment recorded in the first quarter of 2010.

ASUS Construction Expenses

For the year ended December 31, 2010 ASUS construction expenses were \$38.6 million, increasing \$4.9 million compared to the same period in 2009. This was primarily due to \$19.7 million higher construction activity at Fort Bragg in North Carolina and Fort Jackson in South Carolina. These increases were partially offset by a decrease of \$14.8 million in construction expense at the other military bases. Construction activity will vary from base-to-base and year-to-year depending upon the availability of capital for infrastructure improvements at the various military bases.

Table of Contents***Net Gain on Sale of Property***

For the year ended December 31, 2010, Registrant recorded a pre-tax gain of \$643,000 primarily as the result of the sale of property in the water services segment compared to a \$15,000 pretax gain on a sale of property in 2009.

Interest Expense

For the years ended December 31, 2010 and 2009, interest expense by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended 12/31/2010	Year Ended 12/31/2009	\$ CHANGE	% CHANGE
Water and Electric Services	\$ 21,196	\$ 21,398	\$ (202)	-0.9%
Contracted Services	287	358	(71)	-19.8%
AWR (parent)	153	143	10	7.0%
Total interest expense	\$ 21,636	\$ 21,899	\$ (263)	-1.2%

For the year ended December 31, 2010, overall interest expense decreased \$263,000 compared to the same period in 2009. In August 2010, GSWC filed an advice letter with the CPUC for approval of a customer refund in connection with the interest rate balancing account based on the difference between the adopted cost of new debt in GSWC's authorized capital structure and the actual cost of new debt. In October 2010, the CPUC clarified the methodology to calculate the interest rate balancing account. As a result, GSWC's interest expense was reduced to reflect the CPUC's clarification. This decrease was partially offset by higher interest expense due to the issuance in March 2009 of \$40 million in senior notes, and an increase in short-term borrowings and interest rates. Average bank loan balances outstanding under the AWR credit facility were \$37.6 million as compared to an average of \$33.7 million during the same period of 2009. The average interest rate on short-term borrowings for the year ended December 31, 2010 was 1.40% as compared to an average of 1.18% during 2009.

Interest Income

For the years ended December 31, 2010 and 2009, interest income by segment, including AWR (parent) consisted of the following (amounts in thousands):

	Year Ended 12/31/2010	Year Ended 12/31/2009	\$ CHANGE	% CHANGE
Water and Electric Services	\$ 1,895	\$ 898	\$ 997	111.0%
Contracted Services	511	7	504	7200.0%
AWR (parent)	-	6	(6)	-100.0%
Total interest income	\$ 2,406	\$ 911	\$ 1,495	164.1%

Interest income increased by \$1.5 million for the year ended December 31, 2010 primarily due to interest on AWR's tax refund claims recorded in 2010. This was partially offset by interest income recorded in 2009 related to a property tax refund resulting from lower reassessed property values. In contracted services, there was \$510,000 in interest income in connection with the Fort Bliss inventory price adjustment contract modification issued by the U.S. government in March 2010.

Other

For the year ended December 31, 2010, other expenses increased \$684,000 primarily as a result of losses incurred on an investment, accounted for by the equity method.

Table of Contents***Income Tax Expense***

For the years ended December 31, 2010 and 2009, income tax expense by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended		Year Ended		\$		%	
	12/31/2010		12/31/2009		CHANGE		CHANGE	
Water and Electric Services	\$	18,634	\$	17,437	\$	1,197		6.9%
Contracted Services		4,535		2,226		2,309		103.7%
AWR (parent)		(134)		(962)		828		-86.1%
Total income tax expense	\$	23,035	\$	18,701	\$	4,334		23.2%

For the year ended December 31, 2010, income tax expense for water and electric services increased by 6.9% to \$18.6 million compared to \$17.4 million for the year ended December 31, 2009 due primarily to an increase in the effective tax rate. The effective tax rate (ETR) for water and electric services for the year ended December 31, 2010 was 43.2% as compared to a 41.2% ETR applicable to the year ended December 31, 2009. The ETR deviates from the federal statutory rate primarily due to state taxes and changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (principally plant-, rate-case- and compensation-related items) and other nondeductible permanent items. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting increase or decrease occurring in another period. Various items such as meals, entertainment, penalties, and certain charitable, lobbying, and political contributions may not be deductible for tax purposes.

Income tax expense for contracted services increased to \$4.5 million compared to \$2.2 million for the year ended December 31, 2009 primarily due to an increase in pretax income. The ETR for contracted services for the year ended December 31, 2010 was 38.7% as compared to a 37.1% ETR applicable to the same period in 2009. The 2010 ETR is higher than the 2009 ETR primarily as a result of the impact of differing state tax rates among the stand-alone state taxing jurisdictions within which ASUS and its subsidiaries operate.

AWR (parent) receives a tax benefit for expenses incurred at the parent-company level. For year ended December 31, 2009, the taxes recorded at AWR (parent) also include the effect of changes in California law relating to state unitary tax principles during the first quarter of 2009. Management intends to elect, commencing with the 2011 tax year, an alternative apportionment method made available by tax law changes in 2009. As a result of management's intention to apply the alternative method, AWR adjusted its deferred tax balances in the first quarter of 2009 to reflect the expected amount at which it will realize its California deferred taxes consistent with the change in tax law, and refined certain related estimates. This resulted in the recording of a benefit of approximately \$918,000, or \$0.05 per share, during the first quarter of 2009. While the effect of the tax law changes will continue to affect AWR's state taxes, the future effects may be beneficial or detrimental depending on a combination of the profitability of AWR's non-California activities as well as the relative proportion of the factor(s) applied by its apportionment method. Periodically, management will assess its intention to apply the alternative method and will adjust its deferred tax balances accordingly. The consolidated ETR for the year ended December 31, 2010 was approximately 42.6% as compared to 38.9% for the same period in 2009. Absent the \$918,000 tax benefit, the consolidated ETR for the year ended December 31, 2009 would have been 40.8%.

Income from Discontinued Operations

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Net income from discontinued operations for the year ended December 31, 2010 was \$2.1 million, equivalent to \$0.11 per common share on a basic and fully diluted basis, compared to net income of \$157,000 or \$0.01 per common share on a basic and fully diluted basis, for the year ended December 31, 2009, an increase of \$0.10 per common share. The improved performance at CCWC was primarily due to: (i) rate increases approved by the ACC in October 2009 which increased the water margin by \$1.3 million; (ii) a decrease in operating expenses as compared to 2009, including depreciation expense as a result of reporting CCWC as a discontinued operation, resulting in no further depreciation being recorded in accordance with generally accepted accounting principles; and (iii) a loss of \$760,000 recorded in the third quarter of 2009 resulting from a decision issued by the ACC in October 2009 related to a settlement for removal of a well from service, which did not recur in 2010. Income from discontinued operations in 2010 also includes \$426,000, net of tax, in direct legal and consulting costs related to the pending sale of CCWC to EPCOR Water (USA) Inc. The sale is expected to be approved by the ACC in 2011.

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Table of Contents

Consolidated Results of Operations – Years Ended December 31, 2009 and 2008 (amounts in thousands):

	Year Ended 12/31/2009	Year Ended 12/31/2008	\$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	\$ 265,197	\$ 240,464	\$ 24,733	10.3%
Electric	28,922	28,424	498	1.8%
Contracted services	59,132	42,358	16,774	39.6%
Total operating revenues	353,251	311,246	42,005	13.5%
OPERATING EXPENSES				
Water purchased	44,973	45,815	(842)	-1.8%
Power purchased for pumping	9,658	9,819	(161)	-1.6%
Groundwater production assessment	11,563	10,623	940	8.8%
Power purchased for resale	12,853	13,616	(763)	-5.6%
Unrealized gain on purchased power contracts		(1,554)	1,554	-100.0%
Supply cost balancing accounts	12,434	(387)	12,821	-3312.9%
Other operation expenses	28,808	29,491	(683)	-2.3%
Administrative and general expenses	69,051	61,465	7,586	12.3%
Depreciation and amortization	31,531	29,510	2,021	6.8%
Maintenance	17,012	15,964	1,048	6.6%
Property and other taxes	12,824	12,074	750	6.2%
ASUS construction expenses	33,717	23,872	9,845	41.2%
Net gain on sale of property	(15)		(15)	100.0%
Total operating expenses	284,409	250,308	34,101	13.6%
OPERATING INCOME	68,842	60,938	7,904	13.0%
OTHER INCOME AND EXPENSES				
Interest expense	(21,899)	(20,877)	(1,022)	4.9%
Interest income	911	1,832	(921)	-50.3%
Other	221	70	151	215.7%
	(20,767)	(18,975)	(1,792)	9.4%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	48,075	41,963	6,112	14.6%
Income tax expense	18,701	15,967	2,734	17.1%
INCOME FROM CONTINUING OPERATIONS	\$ 29,374	\$ 25,996	\$ 3,378	13.0%
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	157	(3,991)	4,148	-103.9%
NET INCOME	\$ 29,531	\$ 22,005	\$ 7,526	34.2%
Basic earnings from continuing operations	\$ 1.62	\$ 1.50	\$ 0.12	8.0%
Basic earnings from discontinued operations	0.01	(0.23)	0.24	104.3%
	\$ 1.63	\$ 1.27	\$ 0.36	28.3%
Diluted earnings from continuing operations	\$ 1.61	\$ 1.49	\$ 0.12	8.1%
Diluted earnings from discontinued operations	0.01	(0.23)	0.24	104.3%
	\$ 1.62	\$ 1.26	\$ 0.36	28.6%

Table of Contents

Net income from continuing operations for the year ended December 31, 2009 was \$29.4 million, equivalent to \$1.62 and \$1.61 per common share on a basic and fully diluted basis, respectively, compared to \$26.0 million or \$1.50 and \$1.49 per common share on a basic and fully diluted basis, respectively, for the year ended December 31, 2008. Impacting the comparability in the results of the two periods are the following items which increased diluted earnings per share by \$0.12:

- An increase in the water and electric margin of \$13.2 million, or \$0.43 per share, during the year ended December 31, 2009 compared to the same period of 2008 due primarily to: (i) higher water rates approved by the CPUC effective January 1, 2009; (ii) the water margin impact from an increase in the WRAM, net of the MCBA of approximately \$19.5 million as compared to the same period of 2008; and (iii) the recording of \$3.1 million of additional revenues due to the CPUC's approval in April 2009 of the WCMA. These increases were partially offset by lower water consumption of approximately 7% when compared to the same period in 2008.
- An unrealized gain on purchased power contracts in 2008 which increased pretax income by \$1.6 million, or \$0.05 per share. These purchased power contracts expired on December 31, 2008. GSWC began taking delivery of power under new contracts effective January 1, 2009. In May 2009, the CPUC authorized a memorandum account to track unrealized gains and losses. As a result, unrealized gains and losses on these new contracts do not impact earnings.
- A settlement agreement between GSWC and Mirant Energy Trading, LLC, which resulted in the recording of \$1.0 million, or \$0.03 per share, as a reduction to legal costs during the second quarter of 2009. There was no similar gain in 2008.
- An increase of \$12.1 million, or \$0.39 per share in operating expenses, other than supply costs and excluding the Mirant settlement discussed above, at GSWC's water and electric utility businesses for the year ended December 31, 2009. This was due to an increase in pension expenses, labor and other related benefits, an increase in outside services costs, maintenance expense, and higher depreciation and amortization expense. In addition, on February 15, 2010 a settlement was reached between GSWC and two former officers. As a result of the settlement, a pre-tax charge of \$3.8 million for legal and settlement costs was recorded to administrative and general expenses in the fourth quarter of 2009.
- An increase in pretax operating income for contracted services of \$7.3 million, or \$0.24 per share, during the year ended December 31, 2009 due primarily to: (i) an increase in construction projects at FBWS and ODUS, (ii) improved performance at PSUS and ONUS as compared to the prior year, and (iii) an additional \$1.1 million in construction revenues recorded at PSUS in the third quarter of 2009 as a result of a request for an equitable adjustment approved by the U.S. government relating to previously incurred emergency construction costs.
- An increase in interest expense net of interest income of \$1.9 million, or \$0.06 per share, due primarily to: (i) an increase in long-term debt from the issuance of \$40.0 million of notes in March 2009; (ii) GSWC's recording of \$480,000 interest income, during the second quarter of 2008 in connection with revisions to AWR's 2002 income tax return, with no similar gain in 2009; (iii) the recording of \$412,000 of interest expense in the interest rate balancing account approved by the CPUC in July 2009 in the cost of capital proceeding; and (iv) lower interest income in 2009 of \$392,000 accrued in the Aerojet litigation memorandum account balance.

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- An increase in the effective tax rate (ETR) during the year ended December 31, 2009 as compared to the same period in 2008 negatively impacted earnings by \$0.07 per share due primarily to changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements. This increase in the ETR was partially offset by a tax benefit of \$918,000 recorded in the first quarter of 2009 resulting from new California apportionment laws as well as the refinement of certain related estimates. This increase favorably impacted earnings by \$0.05 per share.
- A decrease of \$0.06 per share due to an increase in the weighted average number of common shares outstanding resulting from the issuance of 1.1 million shares of AWR 's Common Shares in a public offering completed in May 2009.

Income from discontinued operations of CCWC for the year ended December 31, 2009 was \$157,000, equivalent to \$0.01 per common share on the basic and fully diluted basis, compared to a loss of \$4.0 million, or \$0.23 per common share on a basic and fully diluted basis, for the year ended December 31, 2008. The increase in diluted earnings per share is primarily due to a goodwill impairment charge of \$7.7 million, or \$0.27 per share, recorded during the fourth quarter of 2008. There was no similar impairment charge in 2009. Excluding the effects of the goodwill impairment charge from 2008, CCWC 's diluted earnings decreased by \$0.03 per share primarily due to a decision issued by the ACC in October of 2009 that resulted in the recording of a loss on the settlement for removal of wells for \$760,000.

Table of Contents

Operating Revenues

Water

For the year ended December 31, 2009, revenues from water operations increased by 10.3% to \$265.2 million, compared to \$240.5 million for the year ended December 31, 2008. Contributing to this increase were rate increases approved by the CPUC effective January 1, 2009, which added approximately \$8.3 million to water revenues in 2009. In addition, as a result of the implementation of the WRAM accounts for Regions II and III in late November of 2008 and in Region I's ratemaking areas in September 2009, GSWC recorded an increase of \$21.2 million of additional revenues for the year ended 2009 as compared to the same period in 2008. Furthermore, GSWC recorded a total of \$3.1 million in the WCMA accounts for GSWC's water regions. There also was an increase in water revenues of \$6.4 million due to surcharges approved by the CPUC in effect to recover under-collections in supply costs. These increases were primarily offset by approximately \$13.0 million resulting from a decrease in actual consumption of approximately 7% when compared to the year ended December 31, 2008. Although precipitation was overall lower in 2009 compared to the same period in 2008, water consumption was down due to the continued effects of state-wide customer conservation efforts. In addition, 2008 included approximately \$764,000 of additional revenues approved by the CPUC, which did not recur in 2009.

GSWC's revenue requirement and volumetric revenues will be adopted as part of a GRC every three years. In November 2010, the CPUC approved GSWC's Region II, Region III and the general office GRC for rates in 2010, 2011 and 2012. In December 2010, the CPUC approved GSWC's Region I GRC for rates in 2011 and 2012. GSWC will file a GRC for all three water regions in July of 2011 with rates effective January 2013.

Electric

For the year ended December 31, 2009, revenues from electric operations increased by 1.8% to \$28.9 million compared to \$28.4 million for the year ended December 31, 2008 due primarily to rate increases approved by the CPUC and the implementation of the Base Revenue Requirement Adjustment Mechanism in November 2009.

Contracted Services

Revenues from contracted services are comprised of construction revenues (including renewals and replacements) and management fees for operating and maintaining the water and/or wastewater systems at military bases. For the year ended December 31, 2009, revenues from contracted services increased by \$16.8 million, or 39.6%, to \$59.1 million compared to \$42.4 million for the year ended December 31, 2008 primarily due to higher construction revenues. Construction revenues increased by \$16.1 million primarily related to new construction projects at FBWS and ODUS, which increased construction revenues by \$6.6 million and \$7.8 million, respectively. Construction revenues for the year ended December 31, 2009 at PSUS and ONUS increased \$3.8 million, including an equitable adjustment of \$1.1 million recorded in 2009 for PSUS as previously discussed. Increased construction revenues at these four bases were partially offset by lower construction revenues of \$2.1 million at TUS. Earnings and cash flows from new construction projects may or may not continue in future periods.

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Management fees for operating and maintaining the various systems increased by approximately \$600,000. In December 2008, the U.S. government authorized an interim adjustment at FBWS retroactive to October 2008, which increased the monthly water and wastewater fees by 50% and 59%, respectively, pending resolution of FBWS's request for an equitable adjustment due to higher inventory at FBWS than described in the request for proposal. This resulted in an increase of approximately \$877,000 to FBWS's management fees for operating and maintaining the water and wastewater systems for the year ended December 31, 2009 as compared to the same period of 2008. An additional \$933,000 in revenue was generated from management fees for operating and maintaining the water and wastewater systems under the contracts for Fort Jackson and Fort Bragg which commenced during the first quarter of 2008, as a result of a full year of operations in 2009. These increases were partially offset by \$1.3 million in one-time transition revenues for the start up of operations for Fort Jackson and Fort Bragg in 2008.

Registrant relies upon rate approvals by state regulatory agencies in California and Arizona to provide for a return on invested and borrowed capital used to fund utility plant additions, and price redeterminations and equitable adjustments by the U.S. government in order to recover operating expenses and profit margin. If adequate rate relief and price redeterminations and adjustments are not granted in a timely manner, operating revenues and earnings can be negatively impacted.

Table of Contents**Operating Expenses:****Supply Costs**

Supply costs for the water segment consist of purchased water, purchased power for pumping, groundwater production assessments and water supply cost balancing accounts. Supply costs for the electric segment consist of purchased power for resale (including the cost of natural gas) and the electric supply cost balancing account. Water and electric margins are computed by taking total revenues, less total supply costs. Registrant uses these margins and related percentages as an important measure in evaluating its operating results. Registrant believes this measure is a useful internal benchmark in evaluating the utility business performance within its water and electric segments. Registrant reviews these measurements regularly and compares them to historical periods and to our operating budget as approved. However, this measure, which is not presented in accordance with GAAP, may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income, which is determined in accordance with GAAP, as an indicator of operating performance.

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for 32.2% and 31.8% of total operating expenses for the years ended December 31, 2009 and 2008, respectively.

The table below provides the amount of increases (decreases), percent changes in supply costs, and margins during the years ended December 31, 2009 and 2008 (amounts in thousands):

	Year Ended		Year Ended		\$	%
	12/31/2009	12/31/2008	12/31/2009	12/31/2008	CHANGE	CHANGE
WATER OPERATING REVENUES (1)	\$ 265,197	\$ 240,464	\$ 265,197	\$ 240,464	\$ 24,733	10.3%
WATER SUPPLY COSTS:						
Water purchased (1)	\$ 44,973	\$ 45,815	\$ 44,973	\$ 45,815	\$ (842)	-1.8%
Power purchased for pumping (1)	9,658	9,819	9,658	9,819	(161)	-1.6%
Groundwater production assessment (1)	11,563	10,623	11,563	10,623	940	8.8%
Water supply cost balancing accounts (1)	9,296	(2,784)	9,296	(2,784)	12,080	-433.9%
TOTAL WATER SUPPLY COSTS	\$ 75,490	\$ 63,473	\$ 75,490	\$ 63,473	\$ 12,017	18.9%
WATER MARGIN (2)	\$ 189,707	\$ 176,991	\$ 189,707	\$ 176,991	\$ 12,716	7.2%
PERCENT MARGIN - WATER	71.5%	73.6%	71.5%	73.6%		
ELECTRIC OPERATING REVENUES (1)	\$ 28,922	\$ 28,424	\$ 28,922	\$ 28,424	\$ 498	1.8%
ELECTRIC SUPPLY COSTS:						
Power purchased for resale (1)	\$ 12,853	\$ 13,616	\$ 12,853	\$ 13,616	\$ (763)	-5.6%
Electric supply cost balancing accounts (1)	3,138	2,397	3,138	2,397	741	30.9%
TOTAL ELECTRIC SUPPLY COSTS	\$ 15,991	\$ 16,013	\$ 15,991	\$ 16,013	\$ (22)	-0.1%
ELECTRIC MARGIN (2)	\$ 12,931	\$ 12,411	\$ 12,931	\$ 12,411	\$ 520	4.2%
PERCENT MARGIN - ELECTRIC	44.7%	43.7%	44.7%	43.7%		

(1) As reported on AWR's Consolidated Statements of Income, except for supply cost balancing accounts. The sum of water and electric supply cost balancing accounts in the table above is shown on AWR's Consolidated Statements of Income and totaled \$12,434,000 and (\$387,000) for the years ended December 31, 2009 and 2008, respectively.

(2) Water and electric margins do not include any depreciation and amortization, maintenance expense, unrealized gains and losses on purchased power contracts, or other operating expenses.

Two of the principal factors affecting water supply costs and gross margin are the amount of water produced and the source of the water. Generally, the variable cost of producing water from wells is less than the cost of water purchased from wholesale suppliers. Prior to November 2008, changes in the water resource mix between water supplied from purchased sources and that supplied from GSWC's wells would increase/decrease actual supply-related costs relative to the mix

Table of Contents

approved for recovery through rates, thereby impacting earnings either negatively or positively. On August 21, 2008, the CPUC issued a final decision which approved the establishment of a modified cost balancing account (MCBA) that allows recovery of supply costs for changes in water supply mix. GSWC implemented the MCBA in late November 2008 for Regions II and III and in September 2009 for Region I s rate-making areas prospectively in connection with the new conservation rate design and the implementation of a WRAM. Under the MCBA, GSWC began tracking adopted expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. Variances (which include the effects of changes in both rate and volume) between adopted and actual purchased water, purchased power, and pump tax expenses are recorded as a component of the supply cost balancing account provision. The amount of such variances will be recovered from or refunded to GSWC s customers at a later date. This is reflected with an offsetting entry to a regulatory asset or liability balancing account (tracked individually for each water ratemaking area).

For the year ended December 31, 2009, 36.9% of GSWC s water supply mix was purchased as compared to 40.1% purchased for the year ended December 31, 2008. However, as noted previously, GSWC implemented the MCBA which eliminates the effects on earnings of changes in the water supply mix. The adopted percentages of purchased water for the year ended December 31, 2009 at Regions I, II and III were 24.6%, 61.7% and 43.7%, respectively, as compared to actual purchased water of 24.0%, 41.0% and 41.5%, respectively, for 2009. Region I s supply mix consists primarily of pumped water. The variance in Regions II s and Region III s actual mix compared to the mix approved by the CPUC resulted in an over-collection in the MCBA account. This caused an overall decrease in the water margin percentage to 71.5% for 2009 compared to 73.6% in 2008 since GSWC no longer receives any benefit from a more favorable supply mix than that approved by the CPUC.

Purchased water costs for the year ended December 31, 2009 decreased by 1.8% to \$45.0 million as compared to \$45.8 million in 2008. The decrease in purchased water costs was due to lower customer usage, partially offset by higher water rates charged from wholesale suppliers.

For the year ended December 31, 2009, power purchased for pumping decreased to \$9.7 million, compared to \$9.8 million for 2008. This was due to lower customer demand, partially offset by increases in supplier rates. There were also changes in the actual supply mix, as discussed above. Groundwater production assessments were higher by 8.8% due primarily to increases in assessment rates (pump tax rates) levied against groundwater production, effective July 2009. In particular, Region II s average pump tax rates increased by approximately 19% or \$1.1 million between the two periods. These increases in groundwater production assessments were partially offset by lower customer demand. The MCBA tracks the increases in pump tax rates for future recovery in water rates.

An increase of \$12.1 million in the water supply cost balancing account provision during the year ended December 31, 2009 as compared to the same period in 2008 was primarily caused by: (i) a \$6.4 million increase in the amortization of the water supply cost balancing accounts for surcharges currently in effect; (ii) the recording of \$1.7 million in the MCBA accounts; (iii) a net decrease of \$3.7 million of under-collections in 2009 (only related to Region I prior to its implementation of the MCBA on September 1, 2009) compared to 2008, and (iv) the recording of a \$181,000 net under-collection adjustment relating to Region III s pre-2001 supply costs which were approved by the CPUC in May of 2008. Upon approval by the CPUC, a regulatory asset was established for these previously incurred supply costs.

For the year ended December 31, 2009, the cost of power purchased for resale to customers in GSWC s BVES division decreased by 5.6% to \$12.9 million compared to \$13.6 million for the year ended December 31, 2008 reflecting lower customer demand. In addition, GSWC began receiving power under a new purchased power contract on January 1, 2009. The main product under the new contract provides for 13 MWs of electric energy at a fixed price of \$63.75 per MWh during 2009 as compared to \$74.65 during 2008. The decrease in the price of purchased power is reflected in the electric supply cost balancing account resulting in no change to the dollar margin for electric services.

Unrealized Gain on Purchased Power Contracts

Pursuant to the accounting guidance for derivatives, the unrealized gain on purchased power contracts during 2008 represented gains recorded for GSWC's purchased power agreements. There was a \$1.6 million pretax unrealized gain on purchased power contracts for the year ended December 31, 2008. These contracts terminated on December 31, 2008 and GSWC began taking delivery under new purchased power contracts in January 2009. In May 2009, the CPUC issued a final decision approving the contract and authorizing a memorandum account to track unrealized gains and losses. Accordingly, a cumulative unrealized loss of \$7.3 million as of December 31, 2009 has been included in the memorandum account. This unrealized loss did not impact earnings.

Table of Contents***Other Operation Expenses***

The primary components of other operation expenses include payroll, materials and supplies, chemicals and water treatment, and outside service costs of operating the regulated systems of Registrant's continuing water business, including the costs associated with water transmission and distribution, pumping, water quality, meter reading, billing, and operations of district offices. Registrant's electric and contracted services operations incur many of the same types of costs as well. For the year ended December 31, 2009 and 2008, other operation expenses by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2009	Year Ended 12/31/2008	\$ CHANGE	% CHANGE
Water Services	\$ 23,067	\$ 22,647	\$ 420	1.9%
Electric Services	2,324	2,230	94	4.2%
Contracted Services	3,417	4,614	(1,197)	-25.9%
Total other operation expenses	\$ 28,808	\$ 29,491	\$ (683)	-2.3%

For the year ended December 31, 2009, other operation expenses for water and electric services increased by \$514,000, or 2.1%, primarily due to higher operation labor and related benefits of \$502,000, and an increase of \$12,000 in other operation expenses.

Contracted services experienced decreases in other operation expenses of \$1.2 million primarily due to transition costs (some of which exceeded non-recurring transition revenues recovered pursuant to the terms of contracts executed by ASUS) of \$1.0 million incurred during the year ended December 31, 2008 as a result of the commencement of the operation of water and wastewater systems at Fort Jackson and Fort Bragg. There was also a decrease of approximately \$593,000 in outside services costs partly attributable to payments to a subcontractor that provided wastewater services to certain of ASUS subsidiaries in 2008. On January 31, 2008, ASUS and its subsidiaries agreed to buy out all current and future rights which this subcontractor had to provide wastewater services at any bases operated by ASUS and any of its present and/or future subsidiaries. For the year ended December 31, 2009, many of these services were performed internally, some of which are recorded in labor costs within maintenance expense. These decreases were partially offset by an increase of \$370,000 relating to operation labor and benefits, and an increase of \$26,000 in other miscellaneous operation expenses.

Administrative and General Expenses

Administrative and general expenses include payroll expenses related to administrative and general functions, the related employee benefits charged to expense accounts, insurance expenses, outside legal and consulting fees, regulatory utility commission expenses, expenses associated with being a public company, and general corporate expenses. For the years ended December 31, 2009 and 2008, administrative and general expenses by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended 12/31/2009	Year Ended 12/31/2008	\$ CHANGE	% CHANGE
Water Services	\$ 50,624	\$ 43,785	\$ 6,839	15.6%
Electric Services	7,312	6,857	455	6.6%

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Contracted Services		11,028		10,675		353		3.3%
AWR (parent)		87		148		(61)		-41.2%
Total administrative and general expenses	\$	69,051	\$	61,465	\$	7,586		12.3%

For the year ended December 31, 2009, administrative and general expenses increased by \$6.8 million in water services compared to the year ended December 31, 2008 due primarily to: (i) an increase of \$3.0 million in pension expenses resulting from a reduction in the fair value of plan assets in 2008 caused by market conditions at the time; (ii) a settlement

Table of Contents

agreement reached with two former officers of GSWC which resulted in a pretax charge of \$3.8 million during the fourth quarter of 2009 for legal and settlement costs; and (iii) an increase of \$1.2 million in labor and other employee benefits. These increases were partially offset by \$590,000 of additional compensation expense incurred in 2008 relating to an agreement executed by GSWC with respect to the resignation of a GSWC officer effective September 26, 2008. This expense did not recur in 2009. There was also a decrease in travel costs of \$285,000 and a decrease of \$286,000 in miscellaneous administrative and general expenses.

For the year ended December 31, 2009, administrative and general expenses increased by \$455,000 in electric services compared to the year ended December 31, 2008 due primarily to: (i) a \$382,000 increase in labor costs and pension costs; (ii) a \$347,000 increase in outside consulting, legal and other services resulting from the current general rate case and the new purchased power contract; (iii) an increase in general rate case costs of \$363,000 not being recovered in customer rates related to BVES's rate case; (iv) an increase of \$336,000 in allocation of costs from the corporate headquarters to BVES; and (v) an increase of \$27,000 in other administrative expenses. These increases were partially offset by the recording of \$1.0 million as a reduction to previously incurred legal costs in connection with a settlement agreement reached with Mirant Energy Trading, LLC, as previously discussed.

There was an increase of \$353,000 in administrative and general expenses for contracted services due primarily to an increase of \$1.2 million in labor costs and related employee benefits due largely to personnel added to operate and maintain the systems at Fort Jackson and Fort Bragg, which began operation in the first quarter of 2008, as well as additional support staff added at ASUS during the latter part of 2008 and in 2009. This increase was partially offset by a decrease in legal and consulting services of \$823,000 resulting from reduced need for such services relating to filings with the U.S. government and costs incurred in 2008 related to the liquidated damages claim at FBWS, which was settled in February 2009. There was also a decrease of \$24,000 in other miscellaneous expenses.

Depreciation and Amortization

For the years ended December 31, 2009 and 2008, depreciation and amortization by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2009	Year Ended 12/31/2008	\$ CHANGE	% CHANGE
Water Services	\$ 28,609	\$ 26,788	\$ 1,821	6.8%
Electric Services	2,258	2,209	49	2.2%
Contracted Services	664	513	151	29.4%
Total depreciation and amortization	\$ 31,531	\$ 29,510	\$ 2,021	6.8%

For the year ended December 31, 2009, depreciation and amortization expense for water and electric services increased by \$1.9 million to \$30.9 million compared to \$29.0 million for year ended December 31, 2008 reflecting, among other things, \$69.1 million of additions to utility plant during 2008. Registrant anticipates that depreciation expense will continue to increase due to ongoing construction at its regulated subsidiaries. Registrant believes that depreciation expense related to property additions approved by the CPUC will be recovered through water and electric rates.

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There was an increase in depreciation and amortization expense for contracted services due primarily to the addition of fixed assets associated with taking over the assets of ASUS former subcontractor for wastewater services at FBWS, ODUS, and TUS and the purchase of wastewater cleaning vehicles at four of ASUS military base operations.

Table of Contents**Maintenance**

For the years ended December 31, 2009 and 2008, maintenance expense by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2009		Year Ended 12/31/2008		\$ CHANGE	% CHANGE
Water Services	\$	13,440	\$	12,626	\$ 814	6.4%
Electric Services		878		805	73	9.1%
Contracted Services		2,694		2,533	161	6.4%
Total maintenance	\$	17,012	\$	15,964	\$ 1,048	6.6%

For the year ended December 31, 2009, maintenance expense for water services increased by \$814,000 to \$13.4 million compared to \$12.6 million for the year ended December 31, 2008 due primarily to maintenance on GSWC s wells, water supply and distribution facilities at Regions II and III. GSWC s maintenance expense at its three water regions increased by \$806,000 during 2009 compared to 2008.

There was an increase of \$73,000 in maintenance expenses for electric services related to the 8.4 MW natural gas-fueled generation plant.

An increase of \$161,000 in contracted services maintenance expense was due primarily to increased maintenance costs of \$236,000 at FBWS and ODUS, resulting from higher internal labor costs associated with wastewater services performed by employees that were provided by a subcontractor prior to February 2008. These increases were partially offset by decreased maintenance costs at PSUS, which incurred higher emergency maintenance costs in 2008 as a result of the age and condition of the infrastructure upon commencement of operations at Fort Jackson in South Carolina. PSUS submitted a request for equitable adjustment based upon the additional costs incurred as a result of the age and condition of the infrastructure at Fort Jackson which is still pending resolution.

Property and Other Taxes

For the years ended December 31, 2009 and 2008, property and other taxes by segment, consisted of the following (amounts in thousands):

	Year Ended 12/31/2009		Year Ended 12/31/2008		\$ CHANGE	% CHANGE
Water Services	\$	10,855	\$	10,403	\$ 452	4.3%
Electric Services		713		530	183	34.5%
Contracted Services		1,256		1,141	115	10.1%
Total property and other taxes	\$	12,824	\$	12,074	\$ 750	6.2%

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For the year ended December 31, 2009, property and other taxes for water and electric services increased by \$635,000, due to higher payroll taxes and franchise fees, partially offset by lower property taxes as a result of a tax refund of \$488,000 due to lower reassessed property values.

Property and other taxes were higher in contracted services due to an increase in payroll taxes resulting from an increase in the number of employees.

Table of Contents***ASUS Construction Expenses***

For the year ended December 31, 2009, ASUS's construction expenses were \$33.7 million, increasing \$9.8 million compared to the same period in 2008 due primarily to new construction projects at FBWS and ODUS, which had increases of \$5.2 million and \$5.7 million, respectively, as compared to 2008. These increases were partially offset by a \$1.6 million decrease in construction expense at TUS and a \$688,000 decrease at PSUS. For the year ended December 31, 2008, PSUS incurred expenses of \$935,000 in emergency construction and \$379,000 in anticipated losses associated with certain construction projects at Fort Jackson. In 2009, emergency costs were lower and additional anticipated losses were not incurred. Construction costs at ONUS increased by \$1.2 million as compared to the same period in 2008. Construction activity will vary from depending upon the availability of capital for infrastructure improvements at the various military bases.

Net Gain on Sale of Property

For the year ended December 31, 2009, Registrant recorded a pre-tax gain of \$15,000 on the sale of property in the water services segment. There was no similar gain in the same period of 2008.

Interest Expense

For the years ended December 31, 2009 and 2008, interest expense by segment, including AWR (parent) consisted of the following (amounts in thousands):

	Year Ended 12/31/2009	Year Ended 12/31/2008	\$ CHANGE	% CHANGE
Water and Electric Services	\$ 21,398	\$ 19,651	\$ 1,747	8.9%
Contracted Services	358	894	(536)	-60.0%
AWR (parent)	143	332	(189)	-56.9%
Total interest expense	\$ 21,899	\$ 20,877	\$ 1,022	4.9%

Overall, interest expense increased in 2009 reflecting an increase in long-term debt, partially offset by lower interest rates and lower short-term borrowings. On March 10, 2009, GSWC issued a senior note in the amount of \$40.0 million to CoBank due March 10, 2019 with an interest rate of 6.7%. In addition, the CPUC authorized GSWC to establish an interest rate balancing account to track interest costs of new debt in July 2009. This balancing account tracks any difference between the incremental cost of debt included in the cost of capital decision and the actual cost of debt for any long-term debt issued by GSWC from the effective date of the final decision. This difference totaled \$412,000 for the year ended December 31, 2009 and was included in the balancing account, increasing interest expense. These increases were partially offset by a decrease in short-term cash borrowings. Average bank loan balances outstanding under the AWR credit facility for the year ended December 31, 2009 were approximately \$33.7 million, as compared to an average of \$57.4 million during the same period of 2008. The average interest rate on short-term borrowings for the year ended December 31, 2009 was 1.18% as compared to an average of 3.32% during 2008.

Table of Contents**Interest Income**

For the years ended December 31, 2009 and 2008, interest income by segment, including AWR (parent) consisted of the following (amounts in thousands):

	Year Ended		Year Ended		\$	%
	12/31/2009	898	12/31/2008	1,774	CHANGE	CHANGE
Water and Electric Services	\$		\$		\$ (876)	-49.4%
Contracted Services		7		6	1	16.7%
AWR (parent)		6		52	(46)	-88.5%
Total interest income	\$	911	\$	1,832	\$ (921)	-50.3%

Interest income decreased by \$921,000 for the year ended December 31, 2009 due to the recording in 2008 of \$480,000 in interest income in connection with the proposed settlement of Registrant's tax refund claim, with no similar income in 2009. In addition, lower interest rates for the year ended December 31, 2009 as compared to the same period of 2008 resulted in a decrease in interest income, including a decrease of \$392,000 in interest accrued on the uncollected balance of the Aerojet litigation memorandum account authorized by the CPUC.

Other

For the years ended December 31, 2009 and 2008, Registrant recorded other income of \$221,000 and \$70,000, respectively, as a result of Registrant's equity interest in an investment. In 2009, Registrant established a Rabbi Trust for the SERP Plan. Investment income earned in this Trust of \$109,000 was also included in other income during 2009.

Income Tax Expense

For the years ended December 31, 2009 and 2008, income tax expense by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended		Year Ended		\$	%
	12/31/2009	17,437	12/31/2008	16,931	CHANGE	CHANGE
Water and Electric Services	\$		\$		\$ 506	3.0%
Contracted Services		2,226		(726)	2,952	-406.6%
AWR (parent)		(962)		(238)	(724)	304.2%
Total income tax expense	\$	18,701	\$	15,967	\$ 2,734	17.1%

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For the year ended December 31, 2009, income tax expense for water and electric services increased by 3.0% to \$17.4 million compared to \$16.9 million for the year ended December 31, 2008 due primarily to an increase in pretax income. In addition, the ETR for water and electric services for the year ended December 31, 2009 increased to 41.2 % as compared to a 38.3% ETR applicable for the year ended December 31, 2008. The ETR deviates from the combined federal and state statutory rate primarily due to state taxes and changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (principally plant, rate case and compensation-related items). Flow-through adjustments increase or decrease tax expense in one period, with an offsetting increase or decrease occurring in another period.

Income tax expense for contracted services increased to \$2.2 million compared to a tax benefit of \$726,000 for the year ended December 31, 2008 due primarily to an increase in pretax income. The ETR for contracted services for the year ended December 31, 2009 was 37.1% as compared to a 38.6% ETR applicable to the year ended December 31, 2008.

Table of Contents

AWR (parent) receives a tax benefit for expenses incurred at the parent-company level. For the year ended December 31, 2009, the taxes recorded at AWR (parent) also include the effect of a change in California law during the first quarter of 2009. On February 20, 2009, California's governor signed two bills into law that amended and added several new provisions to California's Revenue and Taxation Code. One of the provisions in these bills changed the manner by which most taxpayers may compute the portion of their income derived from multiple jurisdictions that is subject to California taxation. During the first quarter of 2009, AWR applied the change in tax law resulting from enactment of the bills based on its understanding of the legislature's intent, which is to permit taxpayers to apply an alternative apportionment method commencing with the 2011 tax year. On October 11, 2009, California's governor signed a bill into law that conformed the new provision's language to the legislature's intent, consistent with AWR's understanding of that intent. As a result of management's intention to apply the alternative method, AWR adjusted its deferred tax balances in the first quarter of 2009 to reflect the expected amount at which it will realize its California deferred taxes consistent with the change in tax law, and refined certain related estimates. This resulted in the recording of a benefit of approximately \$918,000, or \$0.05 per share, during the first quarter of 2009. While the effect of the tax law change will continue to affect AWR's state taxes, the future effects may be beneficial or detrimental depending on a combination of the profitability of AWR's non-California activities as well as the relative proportion of the factor(s) applied by its apportionment method. Periodically, management will assess its intention to apply the alternative method and will adjust its deferred tax balances accordingly. Absent this tax benefit, the consolidated ETR for the year ended December 31, 2009 would have been 40.8%.

Income (Loss) from Discontinued Operations

Income from discontinued operations of CCWC for the year ended December 31, 2009 was \$157,000, compared to a loss of \$4.0 million for the year ended December 31, 2008. During 2008, a charge of \$7.7 million was recorded to reflect the impairment of goodwill in accordance with accounting guidance related to goodwill and other intangible assets, for an impact of \$4.6 million, net of tax. During the 2008 impairment analysis, Registrant determined that revenue growth of CCWC was likely to be slower than originally projected due to down turns in overall economic conditions and lower than anticipated rate increases. The impairment analysis performed for 2009 did not indicate impairment for the \$3.3 million in goodwill for CCWC, and as such, no corresponding charge was recorded for 2009. Excluding the effects of the goodwill impairment charge from 2008, CCWC's diluted earnings decreased by \$0.03 per share primarily due to a decision by the ACC on October 8, 2009, that ordered CCWC to treat the settlement proceeds relating to removal of wells as a reduction to rate base. As a result, a loss of \$760,000 was recorded in 2009.

Table of Contents

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that are important to the portrayal of AWR's financial condition, results of operations and cash flows, and require the most difficult, subjective or complex judgments of AWR's management. The need to make estimates about the effect of items that are uncertain is what makes these judgments difficult, subjective and/or complex. Management makes subjective judgments about the accounting and regulatory treatment of many items. The following are accounting policies that are critical to the financial statements of AWR. For more information regarding the significant accounting policies of Registrant, see Note 1 of *Notes to Financial Statements* included in Part II, Item 8 in Financial Statements and Supplementary Data.

Accounting for Rate Regulation Because the Registrant operates extensively in a regulated business, it is subject to the authoritative guidance for accounting for the effects of certain types of regulation for its GSWC and CCWC subsidiaries. Application of this guidance requires accounting for certain transactions in accordance with regulations adopted by the regulatory commissions of the states in which operations are conducted. Utility companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the ratemaking process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service. Regulation and the effects of regulatory accounting have the most significant impact on the financial statements. When either GSWC or CCWC file for adjustments to rates, the capital assets, operating costs and other matters are subject to review, and disallowances may occur. In the event that a portion of the Registrant's operations is no longer subject to the accounting guidance for the effects of certain types of regulation, Registrant is required to write-off related regulatory assets and liabilities that are not specifically recoverable and determine if other assets might be impaired. If a regulatory commission determines that a portion of the Registrant's assets are not recoverable in customer rates, Registrant is required to determine if it has suffered an asset impairment that would require a write-down in the assets' valuation. At December 31, 2010, the consolidated balance sheet included regulatory assets, less regulatory liabilities, of approximately \$136.0 million. Management continually evaluates the anticipated recovery of regulatory assets, liabilities, and revenues subject to refund and will provide for allowances and/or reserves as deemed necessary. In the event that Registrant's assessment as to the probability of the inclusion in the ratemaking process is incorrect, the associated regulatory asset or liability will be adjusted to reflect the change in our assessment or the impact of regulatory approval of rates.

As permitted by the CPUC, GSWC maintains water and electric supply cost balancing accounts to track under and over collections of revenues designed to recover such costs. These under-collections and over-collections are included in AWR's regulatory assets, net of regulatory liabilities and totaled approximately \$13.7 million as of December 31, 2010. Costs are recorded as expenses and charged to balancing accounts when such costs are incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments or through refunds of previously incurred costs. The amounts included in these accounts primarily relate to increases in amounts charged to GSWC for purchased water, purchased power, and pump taxes that are different from amounts incorporated into the rates approved by the CPUC. GSWC accrues interest on its supply cost balancing accounts at the prevailing rate for 90-day commercial paper. The under-collections and over-collections are recorded as regulatory assets and liabilities in accordance with accounting guidance for the effects of certain types of regulation on a monthly basis. Reviews by the CPUC occur at the time of the filing of a rate case or an advice letter. Management continually evaluates the anticipated recovery of these under-collections and will provide for allowances and/or reserves as deemed necessary. In the event that Registrant's assessment as to the probability of the inclusion in the ratemaking process is incorrect, the associated regulatory asset will be adjusted to reflect the change in our assessment or change as a result of regulatory approval. Recent adjustments to the regulatory assets based on amounts approved by the CPUC have not been material.

With the adoption of the WRAM, GSWC also implemented the MCBA and began tracking adopted expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. Variances (which include the effects of changes in both rate and volume) between adopted and actual purchased water, purchased power, and pump tax expenses are recorded as a component of the supply cost balancing account provision, as the amount of such variances will be recovered from or refunded to GSWC's customers at a later date. The balances in the WRAM and MCBA assets and liabilities accounts will fluctuate on a monthly basis depending upon the variance between

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adopted and actual results. The recovery or refund of the WRAM is netted against the MCBA over- or under-collection for the corresponding rate-making area and is interest bearing at the current 90-day commercial paper rate. Under the current CPUC decision, when the net amount at the end of the calendar year for Regions II, III or any of the Region I ratemaking areas achieves a pre-determined level (i.e., at least 2.5 percent over- or under-recovery of the approved revenue requirement), GSWC will seek approval from the CPUC to refund or collect the balance in the accounts. In March 2011, GSWC filed for recovery of its 2010 WRAM/MCBA balances. Based on CPUC guidelines, recovery periods relating to the 2010 balances will range between 12 and 36 months. In

Table of Contents

September 2010, GSWC, along with other California water utilities, filed an application with the CPUC to modify the recovery period of the WRAM/MCBA accounts to 24 months or less. A decision on this application is expected in 2011.

In March 2010, GSWC filed an advice letter with the CPUC for recovery of the Region II and III WRAM, net of the MCBA and supply cost balancing accounts, of \$18.3 million. A surcharge was put in place in March 2010 which is expected to recover the amounts accumulated as of December 31, 2009 in Regions II and III s WRAM, net of MCBA and supply cost balancing accounts. In April and May 2010, surcharges were implemented for recovery of \$2.1 million of the Region I WRAM accounts, net of the MCBA. For the year ended December 31, 2010, approximately \$6.2 million of surcharges were billed to customers to decrease previously incurred under-collections in the WRAM, net of MCBA balancing accounts. As of December 31, 2010, GSWC has a net aggregated regulatory asset of \$30.9 million which is comprised of a \$49.9 million under-collection in the WRAM accounts and \$19.0 million over-collection in the MCBA accounts. Management will evaluate the anticipated recovery of this under-collection and will provide for allowances and/or reserves as deemed necessary.

Effective November 2, 2009, with the adoption of the Base Revenue Requirement Adjustment Mechanism (BRRAM) account, GSWC began recording the difference between what is billed to its electric customers and that which is authorized by the CPUC. The variance between adopted electric revenue and actual billed revenue will be recorded as a component of electric revenue with an offsetting entry to a current asset or liability balancing account. The variance amount may be positive or negative and represents amounts that will be billed or refunded to electric customers in the future and is interest bearing at the current 90-day commercial paper rate. When the amount of the under or over collection is equal to or greater than 5 percent of the revenue requirement established for the previous twelve months, GSWC intends to seek approval from the CPUC to refund or collect the balance in the account. As of December 31, 2010, GSWC has a regulatory asset of \$1.9 million related to the BRRAM. GSWC intends to file an advice letter with the CPUC for recovery of the balance as of December 31, 2010. Management will evaluate the anticipated recovery of this under-collection and will provide for allowances and/or reserves as deemed necessary.

Revenue Recognition GSWC and CCWC record water and electric utility operating revenues when the service is provided to customers. Operating revenues include unbilled revenues that are earned (service has been provided) but not billed by the end of each accounting period. The historical actual unbilled revenues are calculated, from each customer billing record that was billed after the end of the accounting period, based on the number of days that the service had been provided. Unbilled revenues are recorded for both monthly and bi-monthly customers. The unbilled revenues are based on customer billings subsequent to year end which are used to compile the actual unbilled consumption as of the year end reporting period. In addition, with the adoption of the WRAM and BRRAM, GSWC records the difference between what is billed to its regulated customers and that which is authorized by the CPUC.

Revenues from contract operations and maintenance agreements are recognized when services have been rendered to the customers under such agreements. Revenues from firm, fixed-price construction contracts are recognized based on the percentage-of-completion method of accounting. In accordance with GAAP, revenue recognition under the percentage-of-completion method requires us to estimate the progress toward completion on a contract in terms of efforts (such as costs incurred) or in terms of results achieved (such as units constructed). We have consistently applied these approaches of measuring progress on each of our firm, fixed-price construction projects. These approaches are used because management considers it to be the best available measure of progress on these contracts. Revenues from cost-plus-profit contracts are recognized on the basis of costs incurred during the period plus the profit earned, measured by the cost-to-cost method. Construction costs include all direct material and labor costs charged by subcontractors and those indirect costs related to contract performance, such as indirect labor, supplies, and tools. The factors considered in including such costs in revenues and expenses are that ASUS and/or its subsidiaries: (i) are the primary obligor in these arrangements with the U.S. government; (ii) have latitude in establishing pricing; and (iii) bear credit risk in the collection of receivables from the U.S. government. Administrative and general costs are charged to expense as incurred. Precontract costs are generally expensed unless it is probable that we will be awarded the specific anticipated contract, in which case ASUS defers such costs. Capitalized precontract costs have been immaterial to date. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, change orders and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in

which the revisions are determined.

Income Taxes Registrant's income tax calculations require estimates due principally to the regulated nature of the operations of GSWC and CCWC, the multiple states in which Registrant operates, and potential future tax rate changes. Registrant uses the asset and liability method of accounting for income taxes under which deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or

Table of Contents

settled. Changes in regulatory treatment, or significant changes in tax-related estimates, assumptions or law, could have a material impact on the financial position and results of operations of Registrant. As a regulated utility, GSWC treats certain temporary differences as flow-through adjustments in computing its income tax expense consistent with the income tax approach approved by the CPUC for ratemaking purposes. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting increase or decrease occurring in another period. Giving effect to these temporary differences as flow-through adjustments typically results in a greater variance between the effective tax rate and the statutory federal income tax rate in any given period than would otherwise exist if GSWC were not required to account for its income taxes as a regulated enterprise. As of December 31, 2010, Registrant's total amount of unrecognized tax benefits was zero. See Note 10 (Income Taxes) of *Notes to Consolidated Financial Statements*.

Impairment of Goodwill and Other Intangible Assets In accordance with accounting guidance on goodwill and other intangible assets, goodwill is tested for impairment at least annually and more frequently if circumstances indicate that it may be impaired. Annually, we perform our testing for impairment of goodwill as of December 31. At December 31, 2010, ASUS has \$1.1 million of goodwill reflected under Other Property and Investments and CCWC has \$3.3 million included in Assets of discontinued operations in Registrant's consolidated balance sheets. Goodwill impairment testing is performed at the operating segment (or reporting unit) level. The goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value of the related operations that have goodwill assigned to them. Registrant uses the terminal multiple valuation method in estimating fair value which assumes a business will be sold at the end of the projection period at a specific terminal multiple. Earnings and discounted cash flows were developed from Registrant's internal forecasts. Additionally, management must make an estimate of a weighted average cost of capital to be used as a discount rate, which takes into account certain risk and size premiums, long-term bond yields, and the capital structure of the industry. Changes in these projections or estimates could result in a reporting unit either passing or failing the first step in the guidance on goodwill and other intangible assets impairment model, which could significantly change the amount of any impairment ultimately recorded.

Registrant also considers other qualitative and quantitative factors, including terminal multiples used in the water industry, the regulatory environment in which the reporting unit operates that can significantly impact future earnings and cash flows, and the effects of the volatile current economic environment. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the applicable reporting unit's assets and liabilities used in the first step, and are compared to its carrying value. The fair values for the majority of such assets and liabilities are equal to their carrying values; however, the fair values of the applicable debt are highly dependent upon market conditions surrounding the measurement date. The amount by which carrying value exceeds fair value represents the amount of goodwill impairment.

As a result of its impairment testing as of December 31, 2008, Registrant determined that CCWC's goodwill had been impaired resulting in a \$7.7 million charge during the fourth quarter of 2008. If changes in circumstances or events occur, or estimates and assumptions which were used in the impairment test change, Registrant might be required to record additional impairment charges for goodwill. As of December 31, 2010, ASUS has \$1.1 million of goodwill which may also be at risk for potential impairment if future price redeterminations and/or equitable adjustments are not granted by the U.S. government. As of December 31, 2010, CCWC has \$3.3 million of goodwill remaining. The impairment analysis performed for 2010 did not indicate any additional impairment for goodwill of CCWC or ASUS.

Registrant also reviews regulatory assets for the continued application of accounting for the effects of certain types of regulation, and assesses the recovery of such assets for any potential write-downs.

Impairment of Long-Lived Assets and Loss Contingencies Periodically, Registrant reviews for possible impairment of its utility plant in service in accordance with accounting guidance for regulated entities accounting for abandonments and disallowances of plant costs. In November 2010, the CPUC issued its final decision on the Region II, Region III and general office rate case, which resulted in impairment charges related to certain capital projects that were disallowed.

Registrant records loss contingencies when an unfavorable outcome of a matter is deemed to be probable and the loss is reasonably estimable. Registrant will accrue the most likely amount when such an amount can be reasonably estimated or, at least the minimum of the range of probable loss when a range of probable loss can be estimated. Management determines the likelihood of an unfavorable outcome based on many factors such as the nature of the matter, available defenses, progress of the matter, views and opinions of legal counsel and other advisors, among others.

On February 15, 2007, the CPUC issued a subpoena to GSWC in connection with an investigation of certain work orders and charges paid to a specific contractor used previously by GSWC for numerous construction projects estimated to total \$24.0 million. The CPUC's investigation focuses on whether GSWC was overcharged for these construction projects

Table of Contents

and whether these overcharges were approved in customer rates. The construction projects completed by this specific contractor related primarily to work on water treatment and pumping plants which have been placed in service and are used and useful. In June 2007, GSWC received notification from the CPUC that it was instituting an audit to examine for the period 1994 to the present, GSWC's policies, procedures, and practices throughout its three water regions regarding the granting or awarding of construction contracts or jobs.

Should the CPUC investigation result in a disallowance of certain previously capitalized costs, such costs, and potentially any return earned on such costs, may be required to be refunded to customers, resulting in a charge to operating income. In addition to the disallowance of previously capitalized costs and the return earned on such costs, the CPUC also has the authority to assess fines and penalties. Although it does not believe a disallowance or penalty is justified, and reserving all rights, management believes it prudent to reserve for a probable loss related to this matter.

As a result of management's assessment of the CPUC subpoena and the CPUC's final decision on the Region II, Region III and general office rate case, Registrant recorded a charge for the impairment of assets and loss contingencies totaling \$16.6 million in 2010. These reserve estimates may be adjusted as additional information becomes known. Any increases in estimated reserves for additional disallowances, refunds to customers, assessments or fines, if imposed, could have a material adverse effect on AWR and GSWC.

Pension and Post-Retirement Medical Benefits - Registrant's pension and post-retirement medical benefit obligations and related costs are calculated using actuarial concepts within the framework of accounting guidance for employer's accounting for pensions and post-retirement benefits other than pensions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these critical assumptions annually. Other assumptions include the healthcare cost trend rate and employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase. The discount rate enables Registrant to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality, long-term corporate bond rate. Registrant's discount rates were determined by considering the average of pension yield curves constructed using a large population of high quality corporate bonds. The resulting discount rates reflect the matching of plan liability cash flows to the yield curves. A lower discount rate increases the present value of benefit obligations and increases periodic pension expense. Conversely, a higher discount rate decreases the present value of benefit obligations and decreases periodic pension expense. To determine the expected long-term rate of return on the plan assets, Registrant considers the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on plan assets will increase pension and post-retirement expense. The long-term expected return on plan assets was 7.0% in 2010 and 2009, for both the pension and post-retirement medical plans.

Pension Plan - For the pension plan obligation, Registrant decreased the discount rate to 5.55% as of December 31, 2010 from 6.05% as of December 31, 2009 to reflect market interest rate conditions at December 31, 2010. At December 31, 2010, the pension plan included a \$118.8 million projected benefit obligation (PBO), a \$99.3 million accumulated benefit obligation (ABO) and \$90.2 million in plan assets stated at fair value. Total net period pension cost for 2010 was \$6.9 million. A 25 basis point decrease in the assumed discount rate would have increased total net periodic pension expense for 2010 by approximately \$496,000 or 7.2%, and would have increased the PBO and ABO at December 31, 2010 by \$4.6 million, or approximately 3.8%. A 25 basis point decrease in the long-term return on pension plan asset assumption would have increased 2010 pension cost by approximately \$188,000 or 2.7%.

In addition, changes in the fair value of plan assets will impact future pension cost and the Plan's funded status. Volatile market conditions have affected the value of AWR's trust established to fund its future long-term pension benefits. Any reductions in the value of plan assets will result in increased future expense, an increase in the underfunded position and increased future contributions.

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In November 2010, the CPUC approved the implementation of a two way pension balancing account, which tracks the differences between forecasted annual pension expense adopted in rates and the actual annual expense to be recorded by GSWC in 2010, 2011 and 2012 in accordance with the accounting guidance for pension costs. These differences will be recorded as a regulatory asset or liability in those years for any shortfalls or excesses. As of December 31, 2010, Registrant recorded a \$1.8 million regulatory asset in the pension balancing account.

Funding requirements for qualified defined benefit pension plans are determined by government regulations. Registrant contributes the minimum required contribution as determined by government regulations or the forecasted annual pension cost authorized by the CPUC. In accordance with this funding policy, for 2011 the pension contribution is expected to be approximately \$6.6 million. The 2011 pension cost is estimated to be approximately \$7.0 million. As previously discussed, the difference between the forecasted annual pension costs in rates and the actual pension costs are included in the two-way pension balancing account. The Pension Protection Act of 2006 was signed into law in August 2006. In establishing the contribution amount, Registrant has considered the potential impact of funding rule changes under this Act.

Table of Contents

In January 2011, the Board of Directors approved an amendment to the existing defined benefit pension plan, closing the plan to new employees hired after December 31, 2010. Employees hired or rehired after December 31, 2010 will be eligible to participate in a new defined contribution plan. Under the new plan, Registrant will provide a contribution of 5.25% of eligible pay each pay period into investment vehicles offered by the plan's trustee. Participants will be fully vested in this plan once the employee attains three years of service. Employees hired before January 1, 2011 will continue to participate in and accrue benefits under the terms of the defined benefit plan.

Post-Reti