AMERICAN STATES WATER CO
Form 10-Q
November 05, 2009
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended September 30, 2009

or

o	**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

American States Water Company

(Exact Name of Registrant as Specified in Its Charter)

California	**95-4676679**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA	**91773-1212**
(Address of Principal Executive Offices)	(Zip Code)

(909) 394-3600

(Registrant s Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Commission file number 001-12008

Golden State Water Company

(Exact Name of Registrant as Specified in Its Charter)

California	**95-1243678**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA	**91773-1212**
(Address of Principal Executive Offices)	(Zip Code)

(909) 394-3600

(Registrant s Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether 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 xNo o
Golden State Water Company	Yes xNo o

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 oNo o
Golden State Water Company	Yes oNo o

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):

American States Water Company

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o	Smaller reporting company o

Golden State Water Company

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x	Smaller reporting company o

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 oNo x
Golden State Water Company	Yes oNo x

As of November 3, 2009, the number of Common Shares outstanding, of American States Water Company was 18,512,032 shares. As of November 3, 2009, all of the 134 outstanding Common Shares of Golden State Water Company were owned by American States Water Company.

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

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AMERICAN STATES WATER COMPANY

and

GOLDEN STATE WATER COMPANY

FORM 10-Q

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PART I

Item 1. Financial Statements

General

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

Certain information and footnote disclosures normally included in financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments consisting of normal recurring items and estimates necessary for a fair statement of results for the interim period have been made.

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

Filing Format

American States Water Company (hereinafter AWR) is the parent company of Golden State Water Company (hereinafter GSWC), Chaparral City Water Company (hereinafter CCWC) and American States Utility Services, Inc. (hereinafter ASUS) and its subsidiaries.

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: AWR and GSWC. For more information, please see Note 1 to the Notes to Consolidated Financial Statements and the heading entitled General in Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations. 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.

Forward-Looking Information

This Form 10-Q contains 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, may and other words that convey uncert 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 ratepayers, 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; repayment of amounts owed to us; changes in pension and postretirement 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.

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AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

ASSETS

(Unaudited)

(in thousands)	September 30, 2009	December 31, 2008
Utility Plant		
Utility plant, at cost	$ 1,223,922	$ 1,171,284
Less - Accumulated depreciation	(367,628)	(346,022)
Net utility plant	856,294	825,262
Other Property and Investments		
Goodwill	4,610	4,610
Other property and investments	11,526	10,689
Total other property and investments	16,136	15,299
Current Assets		
Cash and cash equivalents	7,357	7,283
Accounts receivable customers (less allowance for doubtful accounts of $674 in 2009 and $656 in 2008)	18,811	14,315
Unbilled revenue	23,807	17,958
Receivable from the U.S. government (less allowance for doubtful accounts of $67 in 2009 and $121 in 2008)	10,281	8,094
Other accounts receivable (less allowance for doubtful accounts of $456 in 2009 and $474 in 2008)	4,137	6,341
Income taxes receivable	1,798	1,526
Materials and supplies, at average cost	1,912	2,109
Regulatory assets current	8,693	16,071
Prepayments and other current assets	1,986	2,950
Costs and estimated earnings in excess of billings on uncompleted contracts	17,275	11,836
Deferred income taxes current	3,607	2,131
Total current assets	99,664	90,614
Regulatory and Other Assets		
Regulatory assets	118,893	104,521
Other accounts receivable	8,471	8,167
Costs and estimated earnings in excess of billings on uncompleted contracts	6,775	6,897
Deferred income taxes	313	254
Other	10,157	10,273
Total regulatory and other assets	144,609	130,112
Total Assets	$ 1,116,703	$ 1,061,287

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

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AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

(in thousands)	September 30, 2009	December 31, 2008
Capitalization		
Common shares, no par value, no stated value	$ 221,953	$ 185,499
Earnings reinvested in the business	137,794	125,004
Total common shareholders equity	359,747	310,503
Long-term debt	306,298	266,536
Total capitalization	666,045	577,039
Current Liabilities		
Notes payable to banks	20,550	74,700
Long-term debt current	648	636
Accounts payable	37,361	36,582
Income taxes payable	21	974
Accrued employee expenses	7,014	5,625
Accrued interest	5,357	2,463
Unrealized loss on purchased power contracts	7,026	
Billings in excess of costs and estimated earnings on uncompleted contracts	5,479	2,094
Other	15,544	14,323
Total current liabilities	99,000	137,397
Other Credits		
Advances for construction	84,619	86,816
Contributions in aid of construction net	103,512	101,593
Deferred income taxes	91,208	84,750
Unamortized investment tax credits	2,177	2,245
Accrued pension and other postretirement benefits	49,220	52,235
Regulatory liabilities	1,182	425
Billings in excess of costs and estimated earnings on uncompleted contracts	10,856	9,866
Other	8,884	8,921
Total other credits	351,658	346,851
Commitments and Contingencies (Note 8)		
Total Capitalization and Liabilities	$ 1,116,703	$ 1,061,287

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

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AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (Unaudited)

(in thousands, except per share amounts)	Three Months Ended September 30, 2009	2008
Operating Revenues		
Water	$ 78,297	$ 69,365
Electric	6,563	6,743
Contracted services	16,641	9,153
Total operating revenues	101,501	85,261
Operating Expenses		
Water purchased	14,151	15,087
Power purchased for pumping	3,335	3,484
Groundwater production assessment	3,247	2,791
Power purchased for resale	2,793	3,345
Unrealized loss on purchased power contracts		3,741
Supply cost balancing accounts	4,806	(490)
Other operation expenses	7,663	7,366
Administrative and general expenses	17,018	16,307
Depreciation and amortization	8,400	7,882
Maintenance	4,052	4,027
Property and other taxes	3,555	3,461
ASUS construction expenses	9,266	5,117
Loss on settlement for removal of wells	760	
Total operating expenses	79,046	72,118
Operating Income	22,455	13,143
Other Income and Expenses		
Interest expense	(5,861)	(5,428)
Interest income	173	293
Other	38	(30)
Total other income and expenses	(5,650)	(5,165)
Income from operations before income tax expense	16,805	7,978
Income tax expense	7,107	3,426
Net Income	$ 9,698	$ 4,552
Weighted Average Number of Shares Outstanding	18,502	17,268
Basic Earnings Per Common Share	$ 0.52	$ 0.26
Weighted Average Number of Diluted Shares	18,645	17,404
Fully Diluted Earnings Per Share	$ 0.52	$ 0.26

Dividends Declared Per Common Share	$ 0.25	$ 0.25

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

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME

FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

(in thousands, except per share amounts)	**Nine Months Ended September 30, 2009**	**2008**
Operating Revenues		
Water	$ 209,248	$ 186,824
Electric	21,083	21,754
Contracted services	44,332	25,938
Total operating revenues	274,663	234,516
Operating Expenses		
Water purchased	34,622	36,119
Power purchased for pumping	7,711	7,819
Groundwater production assessment	8,621	8,056
Power purchased for resale	9,158	10,179
Unrealized gain on purchased power contracts		(766)
Supply cost balancing accounts	11,666	(1,269)
Other operation expenses	21,981	22,415
Administrative and general expenses	49,405	46,077
Depreciation and amortization	25,148	23,485
Maintenance	12,012	12,569
Property and other taxes	9,667	9,220
ASUS construction expenses	25,540	13,426
Net gain on sale of property	(15)	
Loss on settlement for removal of wells	760	
Total operating expenses	216,276	187,330
Operating Income	58,387	47,186
Other Income and Expenses		
Interest expense	(16,814)	(16,100)
Interest income	671	1,429
Other	90	91
Total other income and expenses	(16,053)	(14,580)
Income from operations before income tax expense	42,334	32,606
Income tax expense	16,205	13,467
Net Income	$ 26,129	$ 19,139
Weighted Average Number of Shares Outstanding	17,896	17,252
Basic Earnings Per Common Share	$ 1.45	$ 1.10
Weighted Average Number of Diluted Shares	18,029	17,378
Fully Diluted Earnings Per Share	$ 1.45	$ 1.10

Dividends Declared Per Common Share	$ 0.75	$ 0.75

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

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

(in thousands)	Nine Months Ended September 30, 2009	2008
Cash Flows From Operating Activities:		
Net income	$ 26,129	$ 19,139
Adjustments for non-cash items:		
Depreciation and amortization	25,148	23,485
Provision for doubtful accounts	774	661
Deferred income taxes and investment tax credits	5,134	4,276
Unrealized gain on purchased power contracts		(766)
Stock-based compensation expense	1,042	1,097
Loss on settlement for removal of wells	760	
Other net	1,123	401
Changes in assets and liabilities:		
Accounts receivable customers	(5,270)	(3,902)
Unbilled revenue	(5,849)	(3,742)
Other accounts receivable	1,900	855
Receivable from the U.S. government	(2,187)	(423)
Materials and supplies	197	(241)
Prepayments and other current assets	964	822
Regulatory assets supply cost balancing accounts	11,666	(1,269)
Costs and estimated earnings in excess of billings on uncompleted contracts	(5,317)	(6,510)
Other assets (including other regulatory assets)	(13,033)	(1,719)
Accounts payable	382	6,168
Income taxes receivable/payable	(1,225)	(2,866)
Billings in excess of costs and estimated earnings on uncompleted contracts	4,375	4,791
Accrued pension and other postretirement benefits	(3,015)	(77)
Other liabilities	6,716	3,162
Net cash provided	50,414	43,342
Cash Flows From Investing Activities:		
Construction expenditures	(55,633)	(58,987)
Business acquisition		(2,298)
Net cash used	(55,633)	(61,285)
Cash Flows From Financing Activities:		
Proceeds from issuance of Common Shares, net of issuance costs	35,354	708
Proceeds from stock option exercises	67	666
Receipt of advances for and contributions in aid of construction	1,065	4,339
Refunds on advances for construction	(3,033)	(3,339)
Repayments of long-term debt	(226)	(272)
Proceeds from issuance of long-term debt, net of issuance costs	39,750	
Net change in notes payable to banks	(54,150)	28,300
Dividends paid	(13,285)	(12,934)
Other net	(249)	18
Net cash provided	5,293	17,486
Net increase (decrease) in cash and cash equivalents	74	(457)
Cash and cash equivalents, beginning of period	7,283	1,698

Cash and cash equivalents, end of period	$ 7,357	$ 1,241

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

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GOLDEN STATE WATER COMPANY
BALANCE SHEETS

ASSETS
(Unaudited)

(in thousands)	September 30, 2009	December 31, 2008
Utility Plant		
Utility plant, at cost	$ 1,153,886	$ 1,103,932
Less - Accumulated depreciation	(345,466)	(326,089)
Net utility plant	808,420	777,843
Other Property and Investments	8,545	7,719
Current Assets		
Cash and cash equivalents	4,865	3,812
Accounts receivable-customers (less allowance for doubtful accounts of $634 in 2009 and $632 in 2008)	18,371	13,969
Unbilled revenue	23,425	17,641
Inter-company receivable	214	309
Other accounts receivable (less allowance for doubtful accounts of $443 in 2009 and 2008)	3,779	4,348
Materials and supplies, at average cost	1,796	1,543
Regulatory assets current	8,693	16,018
Prepayments and other current assets	1,715	2,714
Deferred income taxes current	3,662	2,144
Total current assets	66,520	62,498
Regulatory and Other Assets		
Regulatory assets	118,893	104,521
Other accounts receivable	8,471	8,167
Other	9,495	9,402
Total regulatory and other assets	136,859	122,090
Total Assets	$ 1,020,344	$ 970,150

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

(in thousands)	September 30, 2009	December 31, 2008
Capitalization		
Common shares, no par value, no stated value	$ 195,526	$ 194,728
Earnings reinvested in the business	133,501	129,805
Total common shareholder s equity	329,027	324,533
Long-term debt	300,323	260,561
Total capitalization	629,350	585,094
Current Liabilities		
Long-term debt current	338	326
Accounts payable	29,329	25,897
Inter-company payable	7,047	18,392
Income taxes payable to Parent	1,091	2,794
Accrued employee expenses	6,130	4,940
Accrued interest	5,241	2,391
Deferred income taxes current		39
Unrealized loss on purchased power contracts	7,026	
Other	14,379	13,245
Total current liabilities	70,581	68,024
Other Credits		
Advances for construction	79,402	80,977
Contributions in aid of construction - net	90,594	89,519
Deferred income taxes	90,787	83,765
Unamortized investment tax credits	2,177	2,245
Accrued pension and other postretirement benefits	49,220	52,235
Other	8,233	8,291
Total other credits	320,413	317,032
Commitments and Contingencies (Note 8)		
Total Capitalization and Liabilities	$ 1,020,344	$ 970,150

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME

FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

	Three Months Ended September 30, 2009	
(in thousands)	**2009**	**2008**
Operating Revenues		
Water	$ 76,121	$ 67,316
Electric	6,563	6,743
Total operating revenues	82,684	74,059
Operating Expenses		
Water purchased	13,822	14,889
Power purchased for pumping	3,131	3,293
Groundwater production assessment	3,247	2,791
Power purchased for resale	2,793	3,345
Unrealized loss on purchased power contracts		3,741
Supply cost balancing accounts	4,806	(490)
Other operation expenses	6,557	6,055
Administrative and general expenses	13,711	13,054
Depreciation and amortization	7,716	7,252
Maintenance	3,303	3,289
Property and other taxes	3,145	2,791
Total operating expenses	62,231	60,010
Operating Income	20,453	14,049
Other Income and Expenses		
Interest expense	(5,693)	(5,018)
Interest income	170	284
Other	30	(22)
Total other income and expenses	(5,493)	(4,756)
Income from operations before income tax expense	14,960	9,293
Income tax expense	6,418	3,945
Net Income	$ 8,542	$ 5,348

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME

FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

(in thousands)	**Nine Months Ended September 30, 2009**	**2008**
Operating Revenues		
Water	$ 203,594	$ 181,235
Electric	21,083	21,754
Total operating revenues	224,677	202,989
Operating Expenses		
Water purchased	33,764	35,572
Power purchased for pumping	7,233	7,365
Groundwater production assessment	8,621	8,056
Power purchased for resale	9,158	10,179
Unrealized gain on purchased power contracts		(766)
Supply cost balancing accounts	11,666	(1,269)
Other operation expenses	18,841	17,799
Administrative and general expenses	39,809	36,655
Depreciation and amortization	23,150	21,746
Maintenance	9,340	10,408
Property and other taxes	8,511	8,200
Net gain on sale of property	(15)	
Total operating expenses	170,078	153,945
Operating Income	54,599	49,044
Other Income and Expenses		
Interest expense	(16,112)	(15,035)
Interest income	665	1,370
Other	71	69
Total other income and expenses	(15,376)	(13,596)
Income from operations before income tax expense	39,223	35,448
Income tax expense	16,074	14,576
Net Income	$ 23,149	$ 20,872

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
STATEMENTS OF CASH FLOW

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

(in thousands)	Nine Months Ended September 30, 2009	2008
Cash Flows From Operating Activities:		
Net income	$ 23,149	$ 20,872
Adjustments for non-cash items:		
Depreciation and amortization	23,150	21,746
Provision for doubtful accounts	736	628
Deferred income taxes and investment tax credits	5,678	4,180
Unrealized gain on purchased power contracts		(766)
Stock-based compensation expense	783	940
Other net	787	377
Changes in assets and liabilities:		
Accounts receivable customers	(5,138)	(3,810)
Unbilled revenue	(5,784)	(3,702)
Other accounts receivable	265	783
Materials and supplies	(253)	(152)
Prepayments and other current assets	999	849
Regulatory assets supply cost balancing accounts	11,666	(1,269)
Other assets (including other regulatory assets)	(13,078)	(1,524)
Accounts payable	2,728	4,236
Inter-company receivable/payable	(50)	338
Income taxes receivable/payable from/to Parent	(1,703)	(1,679)
Accrued pension and other postretirement benefits	(3,015)	(77)
Other liabilities	6,363	3,032
Net cash provided	47,283	45,002
Cash Flows From Investing Activities:		
Construction expenditures	(53,118)	(55,455)
Net cash used	(53,118)	(55,455)
Cash Flows From Financing Activities:		
Proceeds from issuance of Common Shares to Parent		30,000
Receipt of advances for and contributions in aid of construction	1,015	4,197
Refunds on advances for construction	(2,827)	(3,047)
Proceeds from the issuance of long-term debt, net of issuance costs	39,750	
Repayments of long-term debt	(226)	(272)
Net change in inter-company borrowings	(11,200)	(12,510)
Dividends paid	(19,400)	(8,800)
Other net	(224)	28
Net cash provided	6,888	9,596
Net increase (decrease) in cash and cash equivalents	1,053	(857)
Cash and cash equivalents, beginning of period	3,812	1,389
Cash and cash equivalents, end of period	$ 4,865	$ 532

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY
AND
GOLDEN STATE WATER COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Summary of Significant Accounting Policies:

General / Nature of Operations: American States Water Company (AWR) is the parent company of Golden State Water Company (GSWC), Chaparral City Water Company (CCWC) and American States Utility Services, Inc. (ASUS) and its subsidiaries, Fort Bliss Water Services Company, Terrapin Utility Services, Inc., Old Dominion Utility Services, Inc., Palmetto State Utility Services, Inc., and Old North Utility Services, Inc.

GSWC is a public utility engaged principally in the purchase, production, distribution and sale of water in California serving approximately 255,000 water customers. GSWC also distributes electricity in several San Bernardino Mountain communities serving approximately 23,000 electric customers. The California Public Utilities Commission (CPUC) regulates GSWC s water and electric businesses, including properties, rates, services, facilities and other matters. CCWC is a public utility regulated by the Arizona Corporation Commission (ACC) serving over 13,000 customers in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. ASUS performs water and wastewater related services and operations on a contract basis. Through its wholly-owned subsidiaries, ASUS has agreements with the U.S. government to operate and maintain the water and/or wastewater systems at various military bases pursuant to 50-year fixed price contracts, which are subject to periodic price redeterminations and modifications for changes in circumstances. There is no direct regulatory oversight by either the CPUC or the ACC of the operation or rates of either the contracted services provided by ASUS and its wholly owned subsidiaries or AWR. AWR s assets, revenues and operations are primarily those of GSWC.

Basis of Presentation: The consolidated financial statements of AWR include the accounts of AWR and its subsidiaries, all of which are wholly owned. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Inter-company transactions and balances have been eliminated in the AWR consolidated financial statements. Investments in partially-owned affiliates are accounted for by the equity method when Registrant s ownership interest exceeds 20%. The consolidated financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America for annual financial statements have been condensed or omitted pursuant to such rules and regulations. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal, recurring items and estimates necessary for a fair statement of the results for the interim periods, have been made. It is suggested that these consolidated financial statements be read in conjunction with Registrant s consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2008 filed with the SEC.

GSWC s Related Party Transactions: GSWC and other subsidiaries provide and receive various services to and from their parent, AWR, and among themselves. In addition, AWR has a $115 million syndicated credit facility. AWR borrows under this facility and provides funds to its subsidiaries, including GSWC, in support of their operations. GSWC is also able to obtain letters of credit under this facility. Amounts owed to AWR for borrowings under this facility are included in inter-company payables on GSWC s balance sheets as of September 30, 2009 and December 31, 2008. The interest rate charged to GSWC and other affiliates is sufficient to cover AWR s interest cost under the credit facility. GSWC also allocates certain corporate office administrative and general costs to its affiliates using allocation factors agreed upon by the CPUC.

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Long-Term Debt: A senior note was issued on March 10, 2009, to CoBank, ACB (Co-Bank). Under the terms of this senior note, CoBank purchased a 6.7% Senior Note due March 10, 2019 in the aggregate principal amount of $40.0 million from GSWC. This note also provides for patronage, where GSWC shares in the profits of CoBank. If the current amount of patronage continues to be paid, the annual cost of the note is at or below 6.0%. The proceeds have been used to pay down short-term borrowings and fund capital expenditures.

Sales and Use Taxes: GSWC bills certain sales and use taxes levied by state or local governments to its customers. Included in these sales and use taxes are franchise fees, which GSWC pays to various municipalities (based on ordinances adopted by these municipalities) in order to use public right of way for utility purposes. GSWC bills these franchise fees to its customers based on a CPUC-authorized rate. These franchise fees, which are required to be paid regardless of GSWC s ability to collect from the customer, are accounted for on a gross basis. GSWC s franchise fees recorded were approximately $782,000 and $718,000 for the three months ended September 30, 2009 and 2008, respectively, and $2,116,000 and $2,052,000 for the nine months ended September 30, 2009 and 2008, respectively. When GSWC acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis.

Depending on the state in which the operations are conducted, ASUS and its subsidiaries are also subject to certain state non-income tax assessments generally computed on a gross receipts or gross revenues basis. These non-income tax assessments are required to be paid regardless of whether the subsidiary is reimbursed by the U.S. government for these assessments under its 50-year contracts with the U.S. government. The non-income tax assessments are accounted for on a gross basis and totaled $234,000 and $521,000 during the three months ended September 30, 2009 and 2008, respectively, and $563,000 and $521,000 for the nine months ended September 30, 2009 and 2008, respectively.

New Accounting Pronouncements: In December 2007, the Financial Accounting Standards Board (FASB) issued revised authoritative guidance on business combinations which establishes principles and requirements for how the acquirer in a business combination: (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquire, (ii) recognizes and measures the goodwill acquired in the business combination, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance was effective for the Company beginning January 1, 2009. Accordingly, any business combinations that Registrant may engage in subsequent to that date will be recorded and disclosed under the new guidance.

In December 2007, the FASB also amended authoritative guidance on noncontrolling interests in consolidated financial statements. The objective of this guidance is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The amended guidance was effective for the Company beginning January 1, 2009 and did not have any impact on Registrant s consolidated financial position, results of operations or cash flows.

In March 2008, the FASB amended its guidance on disclosures about derivatives and hedging activities. The amended guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. This guidance was effective for the Company beginning January 1, 2009 and did not have any impact on Registrant s consolidated financial position, results of operations or cash flows. The adoption of the new guidance did result in enhanced qualitative disclosure of Registrant s derivative instrument as discussed in Note 4.

In December 2008, the FASB amended its guidance on disclosures about postretirement benefit plans to require additional disclosures about plan assets held in an employer s defined benefit pension or other postretirement plan, and to provide users of financial statements with an understanding of (i) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, (ii) the major categories of plan assets, (iii) the inputs and valuation techniques used to measure the fair value of plan assets including the level within the fair value hierarchy, using the guidance on fair value measurements, and (iv) significant concentrations of risk within plan assets. The amended guidance is effective for the Company beginning January 1, 2010. Registrant is evaluating the potential impact of this new amended guidance.

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In April 2009, the FASB issued guidance requiring disclosures beginning in the second quarter of 2009 about the fair value of all financial instruments, for which it is practicable to estimate that fair value, for interim and annual reporting periods. Since this new guidance impacts disclosure only, the adoption of this position will not have an impact on Registrant s consolidated results of operations, financial position or cash flows. This enhanced disclosure is provided in Note 5.

In May 2009, the FASB issued guidance on subsequent events, establishing general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The guidance requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or available to be issued. This guidance was effective beginning in the second quarter of 2009 and impacted disclosure only. Registrant has performed an evaluation of subsequent events through November 5, 2009, which is the date the financial statements were issued.

In June 2009, the FASB issued revised guidance which enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and a company s continuing involvement in transferred assets. It removes the concept of qualifying special purpose entity from US GAAP, changes the requirements for derecognizing financial assets and requires additional disclosures about a transferor s continuing involvement in transferred financial assets. This revised guidance is effective for the Company beginning January 1, 2010 and is not expected to have any impact on Registrant s consolidated results of operations, financial position or cash flows.

In June 2009, the FASB amended the guidance on consolidation for variable interest entities. The new guidance requires a company to perform a qualitative analysis when determining whether it must consolidate a variable interest entity. This guidance also amends how to determine whether an entity is a variable interest entity. A company must now disclose how its involvement with a variable interest entity affects the company s financial statements and disclose any significant judgments and assumptions made in determining whether it must consolidate a variable interest entity. This guidance is effective for the Company beginning January 1, 2010. Registrant is currently evaluating the potential impact of this new guidance.

In June 2009, the FASB issued guidance on the codification of generally accepted accounting principles (GAAP). This guidance was effective for the Company beginning in the third quarter of 2009. The FASB Accounting Standards Codification became the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this guidance, the Codification superseded all then-existing accounting and reporting standards, other than rules and interpretative releases issued by the SEC. The adoption of the new guidance did not have any impact on the Company s financial statements.

Other accounting guidance that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on Registrant s consolidated financial statements upon adoption.

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Note 2 Regulatory Matters:

In accordance with the accounting guidance for rate-regulated enterprises, Registrant records regulatory assets, which represent probable future revenue associated with certain costs that will be recovered from customers through the ratemaking process, and regulatory liabilities, which represent probable future reductions in revenue associated with amounts that are to be credited to customers through the ratemaking process. At September 30, 2009, Registrant had approximately $19.4 million of regulatory assets not accruing carrying costs. Of this amount, $6.9 million relates to deferred income taxes representing accelerated tax benefits flowed-through to ratepayers, which will be included in rates concurrently with recognition of the associated future tax expense, $7.0 million relates to a memorandum account authorized by the CPUC to track unrealized gains and losses on GSWC s purchased power contracts, and $2.2 million relates to general rate case memorandum accounts to be recovered within 12 months. The remainder relates to other expenses that do not provide for recovery of carrying costs that Registrant expects to recover in rates over a short period.

Regulatory assets, less regulatory liabilities, included in the consolidated balance sheets are as follows:

(In thousands)		September 30, 2009		December 31, 2008
GSWC				
Electric supply cost balancing account	$	13,307	$	16,077
Water supply cost balancing accounts		6,453		11,807
Water revenue adjustment mechanism, net of modified cost balancing accounts		12,575		825
Water conservation memorandum accounts		2,292		
Costs deferred for future recovery on Aerojet case		19,918		20,613
Pensions and other postretirement obligations		38,850		40,939
Flow-through taxes, net		6,853		7,134
Electric transmission line abandonment costs		2,873		3,001
Asset retirement obligations		3,901		3,646
Low income rate assistance balancing accounts		4,077		4,758
General rate case memorandum accounts		2,215		4,922
Santa Maria adjudication memorandum accounts		3,943		4,011
Derivative losses (gains) memorandum account		7,026		
Refund of water right lease revenues		(1,948)		(2,360)
Other regulatory assets, net		5,251		5,166
Total GSWC	$	127,586	$	120,539
CCWC				
Asset retirement obligations	$	58	$	55
Other regulatory liabilities, net		(1,240)		(427)
Total AWR	$	126,404	$	120,167

Regulatory matters are discussed in detail in the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2008 filed with the SEC. The discussion below focuses on significant matters and changes since December 31, 2008.

***Supply Cost Balancing Accounts*:**

Electric Supply Cost Balancing Account Electric power costs incurred by GSWC s Bear Valley Electric Service (BVES) division continue to be charged to its electric supply cost balancing account. The under-collection in the electric supply cost balancing account is $13.3 million and $16.1 million at September 30, 2009 and December 31, 2008, respectively, a reduction in the under-collection of $2.8 million during the nine months ended September 30, 2009. As of September 30, 2009, the electric supply cost balancing account consists of under-collections incurred during the energy crisis in late 2000 and 2001, costs of abandonment of a transmission line upgrade and increases in purchased energy and power system delivery costs discussed below.

The CPUC has authorized GSWC to collect a surcharge from its customers of 2.2¢ per kilowatt hour through August 2011, to enable GSWC to recover an under-collection of approximately $23.1 million at the end of 2001 which had been incurred during the energy crisis in late 2000 and 2001. GSWC sold 30,364,064 and

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31,939,690 kilowatt hours of electricity to its BVES customers for the three months ended September 30, 2009 and 2008, respectively, and sold 100,800,183 and 105,354,442 kilowatt hours of electricity to its customers for the nine months ended September 30, 2009 and 2008, respectively. As a result of the surcharge, the supply cost balancing account was reduced by approximately $675,000 and $720,000 for the three months ended September 30, 2009 and 2008, respectively, and $2,240,000 and $2,361,000 for the nine months ended September 30, 2009 and 2008, respectively. Approximately $22.4 million of the $23.1 million under-collection incurred during the energy crisis in late 2000 and 2001 has been recovered through this surcharge. Therefore, as of September 30, 2009 approximately $728,000 related to the energy crisis remains to be recovered through this surcharge. GSWC anticipates the surcharge, based on projected electricity sales, to be sufficient for it to recover by August 2011 the amount of the under-collected balance incurred during the energy crisis. However, in 2011, if GSWC has not fully recovered the amount of this under collection, GSWC will seek additional recovery from the CPUC of any amounts not recovered through this surcharge.

Changes in purchased energy and power system delivery costs as compared to CPUC authorized rates have also impacted the electric supply cost balancing account by $8.9 million under-collection as of September 30, 2009. The purchased energy costs that are recorded in the supply cost balancing account are subject to a price cap by terms of a 2001 settlement which was subsequently approved in a CPUC decision. The BVES division of GSWC is allowed to include its actual recorded purchased energy costs up to a weighted annual average cost of $77 per megawatt-hour (MWh) through August 2011 in its electric supply cost balancing account. BVES began receiving power under a new purchased power contract in 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 per MWh during 2008. The reduction in the actual price of purchased power helps decrease the under-collection balance in the electric supply cost balancing account. To the extent that the actual weighted average annual cost for power purchased exceeds the $77 per MWh amount, GSWC will not be able to include these amounts in its balancing account and such amounts will be expensed. There were no amounts expensed over the $77 per MWh cap during the three months and nine months ended September 30, 2009 and 2008.

Charges to GSWC by Southern California Edison (Edison) associated with the transportation of energy over Edison s power system and the abandonment of a transmission line upgrade have increased under Edison s tariff to levels that exceed the amounts authorized by the CPUC in BVES retail power rates to its customers. The incremental cost increase to GSWC from the tariff for the abandonment of a transmission line upgrade, which is not currently included in rates, is $38,137 per month. The incremental costs of $3.7 million at September 30, 2009 not included in rates have been included in the balancing account at September 30, 2009 for subsequent recovery from customers, subject to CPUC approval.

Power system delivery costs are not subject to the $77 per MWh price cap referenced above. Other components, such as interest accrued on the cumulative under-collected balance and power lost during transmission, also affect the balance of the electric supply cost balancing account.

Water Supply Cost Balancing Accounts As permitted by the CPUC, Registrant maintains water supply cost balancing accounts for GSWC to account for under-collections and over-collections of revenues designed to recover such costs. The supply cost balancing accounts track differences between the current cost for supply items (water, power and pump taxes) charged by GSWC s suppliers and the cost for those items incorporated into GSWC s rates. Under-collections (recorded as regulatory assets) occur when the current cost exceeds the amount in rates for these items and, conversely, over-collections (recorded as regulatory liabilities) occur when the current cost of these items is less than the amount in rates. Typically, under-collections or over-collections, when they occur, are tracked in the supply cost balancing accounts for future recovery or refund through a surcharge (in the event of an under-collection) or through a surcredit (in the event of an over-collection) on customers bills. Registrant accrues interest on its supply cost balancing accounts at the rate prevailing for 90-day commercial paper. Registrant does not maintain a supply cost balancing account for CCWC.

For the three months ended September 30, 2009 and 2008, approximately $339,000 and $1.8 million of under-collections (including interest), respectively, were recorded in the water supply cost balancing accounts. For the nine months ended September 30, 2009 and 2008, approximately $1.1 million and $3.9 million of under-collections (including interest), respectively, were recorded in the water supply cost balancing accounts. Amortization of surcharges that are in rates to recover under-collections from customers and surcredits that are in rates to refund over-collections to customers also increase or decrease the water supply cost balancing accounts, as applicable. During the three months ended September 30, 2009 and 2008, approximately $2.7 million and $860,000, respectively, of surcharges were billed to customers to decrease previously incurred under-collections in

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the water supply cost balancing accounts. During the nine months ended September 30, 2009 and 2008, approximately $6.5 million and $613,000 of surcharges were billed to customers to decrease previously incurred under-collections in the water supply cost balancing accounts.

As of September 30, 2009, there is a net under-collection of approximately $6.5 million in the water supply cost balancing accounts. Of this amount, approximately $3.5 million relates to GSWC s Region III customer service area. The remaining $3.0 million net under-collections in the water supply cost balancing accounts relate to GSWC s Region I net under-collection of $2.6 million and Region II s net under-collection of $0.4 million. Currently, there are surcharges in place at each of the three regions to recover these under-collections over a period ranging from 12 to 24 months. When these surcharges expire, any unrecovered balances will be included for recovery in a future filing.

On August 21, 2008, the CPUC issued a final decision which approved a settlement agreement between GSWC and the CPUC s Division of Ratepayer Advocates (DRA) regarding conservation rate design. As a result of this decision, GSWC is permitted to establish a Modified Cost Balancing Account (MCBA) that will permit GSWC to recover supply costs related to changes in water supply mix in addition to rate changes by GSWC s suppliers. GSWC implemented this MCBA in late November 2008 for Regions II and III and September 1, 2009 for Region I. This account replaces the current water supply cost balancing account procedure for costs incurred after the modified supply cost balancing account was implemented.

Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account:

With the adoption of the WRAM and the MCBA effective November 25, 2008 for Regions II and III and September 1, 2009 for Region I, GSWC began recording the difference between what is billed to its regulated customers and that authorized by the CPUC. Under the WRAM, GSWC records the adopted level of volumetric revenues as authorized by the CPUC for metered accounts (adopted volumetric revenues). While the WRAM tracks volumetric-based revenues, the revenue requirements approved by the CPUC include service charges, flat rate charges, and other items that are not subject to the WRAM. Approximately 66% of GSWC s total adopted revenues are volumetric-based. The adopted volumetric revenues considers the seasonality of consumption of water based upon historical averages. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts is recorded as a component of revenue with an offsetting entry to a regulatory asset or liability balancing account. The variance amount may be positive (under-collection) or negative (over-collection) and represents amounts that will be billed or refunded to customers in the future.

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, as 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.

The balances in the WRAM and MCBA assets and liabilities accounts will fluctuate on a monthly basis depending upon the variance between adopted and actual results. The recovery or refund of the WRAM is netted against the MCBA over-or under-collection for the corresponding Region. The over-or-under collections bear interest at the current 90 day commercial paper rate. GSWC intends to seek approval from the CPUC to refund or collect the balance in the accounts when the amount for WRAM net of MCBA achieves a pre-determined level (i.e., at least 2.5 percent over-or under-recovery of the approved revenue requirement). Account balances less than those levels may be refunded or collected in GSWC s general rate case proceedings or aggregated with future calendar year balances for comparison with the pre-determined recovery level of 2.5 percent of adopted revenues. As of September 30, 2009, GSWC has a net aggregated regulatory asset of $12.6 million which is comprised of a $16.5 million under-collection in the WRAM accounts and $3.9 million over-collection in the MCBA accounts. The revenue requirement and volumetric revenues are adopted as part of a General Rate Case (GRC) every three years. Region I will file its next GRC in January 2010 with new rates effective for 2011 and 2012. All water regions will file one GRC in July of 2011 with rates effective January 2013. As part of future GRCs, the CPUC is expected to adopt new volumetric revenues based on historical usage patterns and the revenue requirement adopted in these GRCs.

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Water Conservation Memorandum Accounts (WCMA)

The CPUC also approved an advice letter filing in a separate proceeding to allow GSWC to create and implement a Water Conservation Memorandum Account (WCMA) to track the extraordinary expenses and revenue shortfall associated with conservation measures in conjunction with the declared drought in California. The WCMA was effective August 18, 2008 and was used to track on-going extraordinary expenses, and the revenue shortfall until the WRAM was implemented on November 25, 2008 for Regions II and III and September 1, 2009 for Region I. On November 24, 2008, approximately $2.0 million of net under-collections were included in the WCMA for Regions II and III prior to the implementation of the WRAM. On April 16, 2009, the CPUC approved the advice letter filed by GSWC to recover the $2.0 million through a 12-month surcharge to customers bills. The surcharge went into effect on April 21, 2009. Accordingly, GSWC established a $2.0 million regulatory asset for Regions II and III during the second quarter of 2009. At September 30, 2009, the balance for Regions II and III is $1.2 million, net of amounts collected from customers through the 12-month surcharge. In addition, GSWC established an $852,000 regulatory asset in the second quarter of 2009 for the activity in Regions I s WCMA through June 30, 2009 and an additional $297,000 during the third quarter of 2009 for a total balance at September 30, 2009 of $1.1 million. The regulatory asset for Region I s WCMA balance was incurred during the period of August 18, 2008 through August 31, 2009. Management believes that these amounts are also probable of recovery. In October 2009, GSWC filed an advice letter for recovery of Region I s WCMA, through a 12-month surcharge for amounts incurred during the period of August 18, 2008 through August 31, 2009.

Costs Deferred for Future Recovery:

In 1999, GSWC sued Aerojet-General Corporation (Aerojet) for contaminating the Sacramento County Groundwater Basin, which affected certain GSWC wells. On a related matter, GSWC also filed a lawsuit against the State of California (the State). The CPUC authorized memorandum accounts to allow for recovery, from customers, of costs incurred by GSWC in prosecuting the cases against Aerojet and the State, less any recovery from the defendants or others. On July 21, 2005, the CPUC authorized GSWC to collect approximately $21.3 million of the Aerojet litigation memorandum account, through a rate surcharge, which will continue for no longer than 20 years. Beginning in October 2005, new rates went into effect to begin amortizing the memorandum account over a 20-year period. A rate surcharge generating approximately $277,000 and $299,000 was billed to customers during the three months ended September 30, 2009 and 2008, respectively, and $740,000 and $789,000 during the nine months ended September 30, 2009 and 2008, respectively. GSWC will keep the Aerojet memorandum account open until the earlier of full amortization of the balance or 20 years. However, no costs will be added to the memorandum account, other than on-going interest charges approved by the CPUC decision. Pursuant to the decision, additional interest of approximately $12,000 and $111,000 was added to the Aerojet litigation memorandum account during the three months ended September 30, 2009 and 2008, respectively, and $45,000 and $367,000 was added to the Aerojet memorandum account during the nine months ended September 30, 2009 and 2008, respectively.

Aerojet has also agreed to reimburse GSWC $17.5 million, plus interest accruing from January 1, 2004, for GSWC s past legal and expert costs, which is included in the Aerojet litigation memorandum account. The reimbursement of the $17.5 million is contingent upon the issuance of land use approvals for development in a defined area within Aerojet property in Eastern Sacramento County and the receipt of certain fees in connection with such development. The Westborough development is within the defined area in the settlement agreement. It is management s intention to offset certain proceeds from the housing development by Aerojet in the Westborough areas, pursuant to the settlement agreement, against the balance in this litigation memorandum account. At this time, management believes the full balance of the Aerojet litigation memorandum account will be collected by 2025.

Pensions and Other Postretirement Obligations:

There was an increase in the underfunded status of the pension plan during 2008 which has resulted in higher pension costs during 2009. The amount included in rates for recovery of pension costs in 2009 were previously established in that last GRC and did not include this higher level of costs. In March 2009, GSWC filed an advice letter with the CPUC requesting authorization to establish a Pension Costs Memorandum Account to track the difference between the pension costs authorized by the CPUC and included in customer rates, and actual pension costs in 2009. The CPUC denied this request indicating that amounts established in the previous GRC will remain in effect. GSWC also amended its current rate case application to request a two-way balancing account to track fluctuations in the 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. If approved as filed, GSWC will establish a regulatory asset or liability in those years, for any shortfalls or excesses in this account.

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Derivative Gains and Losses on Purchased Power Contracts Memorandum Account:

As described in Note 4, in October 2008 GSWC executed a new purchased power contract. GSWC began receiving power under this contract on January 1, 2009 at a fixed cost over three and five year terms depending on the amount of power and period during which the power will be purchased under the contract. The new contract is also subject to the accounting guidance on derivatives, and requires mark-to-market derivative accounting. In May 2009, the CPUC issued a final decision approving the new purchased power contract. In the decision, the CPUC also authorized the establishment of a regulatory asset and liability memorandum account to offset the entries required by the accounting guidance on derivatives. Accordingly, all unrealized gains and losses generated from the new purchased power contract will be deferred on a monthly basis into a non-interest bearing regulatory memorandum account that will track the changes in fair value of the derivative throughout the term of the contract. As of September 30, 2009, $7.0 million of cumulative unrealized losses have been included in this memorandum account, therefore not impacting earnings.

Deferred Rate Case Costs:

Included in GSWC s other regulatory assets are deferred rate case costs totaling $3.7 million. These are direct costs consisting primarily of outside consulting services, which have been incurred in connection with the preparation and processing of a GRC. Historically, GSWC has deferred these costs as a regulatory asset which are then recovered in rates and amortized over the term of a rate case cycle once the new rates go into effect. In the current GRC for Regions II and III and the general office, the CPUC s Division of Ratepayer Advocates (DRA) is challenging GSWC s historical practice of deferring these costs with subsequent recovery upon the effective date of the new rates. Instead, DRA believes that rate case costs should be projected for future periods and recovered prospectively. Management believes that DRA s rationale and recommendations are inconsistent with GSWC s historical practice of deferring and recovering rate case expenses associated with the current GRC. This practice has not been challenged by the CPUC in prior rate cases. GSWC will vigorously defend its position. However, if DRA prevails, GSWC may be required to write-off approximately $2.3 million as of September 30, 2009 related to the current water rate case. At this time, GSWC is unable to predict the outcome of this matter.

BVES:

GSWC s BVES division has been regularly filing compliance reports with the CPUC regarding its purchases of energy from renewable energy resources. The filings indicated that BVES has not achieved interim target purchase levels of renewable energy resources and thus, on its face, might have a potential penalty. The CPUC considered the future timing and applicability of renewable energy resource requirements as they apply to smaller energy utilities like BVES. On May 30, 2008, the CPUC issued its final decision regarding the renewable responsibilities of small utilities (including BVES). The final decision affirmed the renewable obligation targets for small utilities but also allowed small utilities to defer compliance under the CPUC s flexible compliance rules. BVES is required to describe in detail the problems that warrant further deferral annually in accordance with the CPUC s flexible compliance rules. Because the final decision deferred BVES interim target purchase levels for the years 2004 through 2007, management believes that the CPUC s decision effectively forecloses any exposure to financial penalties for the year 2007 and earlier. For the 2008 year, BVES did not meet the interim targets and expects that the CPUC will waive any potential fines in accordance with the flexible compliance rules. Accordingly, no provision for loss has been recorded in the financial statements as of September 30, 2009. At this time, management has determined that interim targets for the 2009 year will not be met but expects the CPUC to waive any potential fines in accordance with the flexible compliance rules.

BVES is in negotiations with two parties with respect to the purchase of biogas that would be used in BVES generator plant and the purchase of electricity generated at a landfill site. BVES intends to seek regulatory approval of the contracts, if negotiations are successful. If approved by the CPUC, GSWC anticipates that BVES will be able to meet its 20% renewable requirement in 2010.

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CCWC Other Regulatory Assets/Liabilities**:**

Fountain Hills Sanitary District (FHSD) is a political subdivision of the State of Arizona that provides sanitary sewer service to customers residing within CCWC s water service area. In connection with its sanitary system, FHSD constructed a recharge system whereby it recharges treated effluent through multiple injection wells. In order for FHSD to secure an Aquifer Protection Permit for its recharge system, FHSD requested CCWC to permanently cease using one of its wells. As a possible replacement for this well, FHSD constructed a new well adjacent to the community center (Community Center Well). However, this well was not able to produce an amount of water equivalent to the amount produced by CCWC s well that was taken out of production. Accordingly, in February 2005, CCWC entered into an agreement with FHSD whereby CCWC agreed to permanently remove from service this well and in return CCWC received a settlement fee of $1,520,000 from FHSD. Pursuant to the agreement, CCWC agreed to: (i) permanently remove from service and cap this well, and cap another well which had never been used as a potable source of supply; (ii) relinquish any legal claim or interest that CCWC may otherwise possess in the Community Center Well, and (iii) grant an option to FHSD to acquire one of the wells at a future date at fair market value. The removal of these two wells from service did not have a significant impact on CCWC s water supply.

In 2005, CCWC recognized a net gain of $760,000 related to this settlement agreement and established a regulatory liability for the remaining $760,000 that remained as of December 31, 2008 pending ACC review of this matter. On October 8, 2009, the ACC made a final ruling ordering CCWC to treat the entire gain of $1,520,000 from the settlement agreement with FHSD as a reduction to rate base. As a result, CCWC has recorded a loss of $760,000 during the third quarter of 2009. This effectively reverses the original gain recorded in 2005.

Other Regulatory Matters**:**

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 by GSWC for numerous construction projects totaling approximately $24.0 million. The CPUC s investigation focuses on whether GSWC was overcharged for these construction projects 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 September 2007, GSWC received notification from the CPUC that it was instituting an audit. The purpose of the audit was to examine for the period 1994 to the present, GSWC s policies, procedures, and practices throughout all of its Regions regarding the granting or awarding of construction contracts or jobs. GSWC is currently responding to data requests submitted by the CPUC including recent data requests which asked for information prior to 1994. Management cannot predict the outcome of the investigation or audit at this time.

In January 2009, the ACC staff requested information regarding the CPUC subpoena and on-going audit. GSWC has been working with the ACC staff and has provided responsive materials that are relevant to CCWC. Management cannot predict the outcome of the ACC s request. Although the ACC has issued a decision in the CCWC general rate case, they have held the proceeding open pending resolution of the staff review of the CPUC subpoena documents.

In June 2009, GSWC implemented water conservation and rationing in its Bay Point customer service area. GSWC has also filed advice letters with the CPUC and implemented mandatory conservation and rationing in its Simi Valley, Orange County, Metropolitan, Claremont, San Dimas and San Gabriel Valley customer service areas. Reduction goals range from 6% to 15% depending on the area. GSWC will consider taking similar actions in other customer service areas as needed.

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Note 3 Earnings per Share/Capital Stock:

Registrant computes earnings per share (EPS) in accordance with the accounting guidance for the effect of participating securities on EPS calculations and the use of the two-class method. The guidance requires the use of the two-class method of computing EPS for companies with participating securities. The two-class method is an earnings allocations formula that determines EPS for each class of common stock and participating security. AWR has participating securities related to stock options that earn dividend equivalents on an equal basis with Common Shares that have been issued under AWR s 2003 Non-Employee Directors Stock Plan, and the restricted stock units under AWR s 2000 Stock Incentive Plan and 2008 Stock Incentive Plan. In applying the two-class method, undistributed earnings are allocated to both Common Shares and participating securities. The following is a reconciliation of Registrant s net income and weighted average Common Shares outstanding for calculating basic net income per share:

Basic			**For The Three Months Ended September 30,**				**For The Nine Months Ended September 30,**		
(in thousands, except per share amounts)			**2009**		**2008**		**2009**		**2008**
Net income		$	9,698	$	4,552	$	26,129	$	19,139
Less: (a)	Distributed earnings to common shareholders		4,625		4,317		13,422		12,939
	Distributed earnings to participating securities		22		24		62		67
Undistributed earnings			5,051		211		12,645		6,133
(b)	Undistributed earnings allocated to common shareholders		5,026		210		12,587		6,102
	Undistributed earnings allocated to participating securities		25		1		58		31
Total income available to common shareholders, basic (a)+(b)		$	9,651	$	4,527	$	26,009	$	19,041
Weighted average Common Shares outstanding, basic			18,502		17,268		17,896		17,252
Basic earnings per Common Share		$	0.52	$	0.26	$	1.45	$	1.10

Diluted EPS is based upon the weighted average number of Common Shares, including both outstanding shares and shares potentially issuable in connection with stock options and restricted stock units granted under the Registrant s 2000 and 2008 Stock Incentive Plans, and the 2003 Non-Employee Directors Stock Plan, and net income. At September 30, 2009 and 2008 there were 679,258 and 544,778 options outstanding, respectively, under these Plans. At September 30, 2009 and 2008, there were also 86,947 and 76,809 restricted stock units outstanding, respectively, under these Plans.

The following is a reconciliation of Registrant s net income and weighted average Common Shares outstanding for calculating diluted net income per share:

Diluted		**For The Three Months Ended September 30,**				**For The Nine Months Ended September 30,**		
(in thousands, except per share amounts)		**2009**		**2008**		**2009**		**2008**
Common shareholders earnings, basic	$	9,651	$	4,527	$	26,009	$	19,041
Undistributed earnings for dilutive stock options		25		1		58		31

Total common shareholders earnings, diluted	$	9,676	$	4,528	$	26,067	$	19,072
Weighted average common shares outstanding, basic		18,502		17,268		17,896		17,252
Stock-based compensation (1)		143		136		133		126
Weighted average common shares outstanding, diluted		18,645		17,404		18,029		17,378
Diluted earnings per Common Share	$	0.52	$	0.26	$	1.45	$	1.10

(1) In applying the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in the calculation of diluted EPS, 422,553 and 333,792 stock options at September 30, 2009 and 2008, respectively, were deemed to be outstanding in accordance with the accounting guidance on earnings per share. All of the 86,947 and 76,809 restricted stock units at September 30, 2009 and 2008, respectively, were included in the calculation of diluted EPS for the three and nine months ended September 30, 2009 and 2008.

Stock options of 252,326 and 110,713 were outstanding at September 30, 2009 and 2008, respectively, but not included in the computation of diluted EPS because the related option exercise price was greater than the average market price of AWR s Common Shares for the nine months ended September 30, 2009 and 2008. Stock options of 4,379 and 100,273 were outstanding at September 30, 2009 and 2008, respectively, but not included in the computation of diluted EPS because they were antidilutive.

During the nine months ended September 30, 2009 and 2008, Registrant issued 54,971 and 27,382 Common Shares, for approximately $1.4 million and $708,000, respectively, under Registrant s Common Share Purchase and Dividend Reinvestment Plan, the 401(k) Plan, and the stock incentive plans.

In May 2009, AWR completed a public offering of 1,150,000 shares of its Common Shares, including 150,000 shares issued upon exercise of an option granted to the underwriters to cover over-allotments, at a price to the public of $31 per share. The net proceeds from the offering were $34.0 million, after deductions of underwriting commissions and discounts, and direct legal and accounting fees. The Company used the proceeds of the offering to repay short-term debt.

In addition, Registrant purchased 13,772 Common Shares on the open market during the nine months ended September 30, 2009 under Registrant s Common Share Purchase and Dividend Reinvestment Plan and 27,566 Common Shares during the nine months ended September 30, 2008, under Registrant s Common Share Purchase and Dividend Reinvestment Plan and 401(k) Plan. The Common Shares purchased by Registrant were used to satisfy the requirements of these plans.

During each of the three months ended September 30, 2009 and 2008, AWR paid quarterly dividends to shareholders of approximately $4.6 million and $4.3 million, or $0.25 per share, respectively. During the nine months ended September 30, 2009 and 2008, AWR paid quarterly dividends to shareholders of approximately $13.3 million and $12.9 million, or $0.75 per share, respectively.

Note 4 Derivative Instruments:

Most of the electric energy sold by BVES to its customers is purchased from others. To mitigate exposure to spot-market prices, Registrant has entered into purchased power contracts, which are subject to derivative accounting, to serve its BVES customer service area. By entering into these fixed-priced purchased power contracts, Registrant has been able to limit the amount of risk and uncertainty due to spot-market price variability. Changes in electricity costs are outside of management s control. Therefore, the purpose of entering into these fixed price contracts is to stabilize purchased power costs. Except for the resale of small amounts of power in the spot market that are in excess of BVES customers needs, the power purchased under the contracts is only used to service BVES customers demand.

Registrant had certain block-forward purchased power contracts that were subject to the accounting guidance for derivatives. During 2002, GSWC became a party to block-forward purchased power contracts that qualified as derivative instruments under the accounting guidance. As a result, unrealized gains and losses were recorded to earnings on a monthly basis to reflect the fair market value of the derivative at the end of each month. These contracts expired on December 31, 2008. During the three and nine months ended September 30, 2008, $3.7 million of unrealized losses and $766,000 of unrealized gains, respectively, on purchased power contracts were recorded to GSWC s earnings.

In October 2008, GSWC executed a new purchased power contract that permits GSWC to purchase power at a fixed cost over three and five year terms depending on the amount of power and period during which the power will be purchased under the contract. The new contract is also subject to the accounting guidance for derivatives and requires mark-to-market derivative accounting. GSWC began receiving power under this contract on January 1, 2009. In May 2009, the CPUC issued a final decision approving the contract and authorized GSWC to establish a regulatory asset and liability memorandum account to offset the entries required by the accounting guidance. Accordingly, all unrealized gains and losses generated from the new purchased power contract will be deferred on a monthly basis into the non-interest bearing regulatory memorandum account that will track the changes in fair value of the derivative throughout the term of the contract. As a result, unrealized derivative gains and losses from the new contract will not affect GSWC s earnings, and will have no impact on power purchased for resale due to regulatory accounting treatment.

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On a monthly basis, the related asset or liability from the new purchased power contract is adjusted to reflect the fair market value at the end of the month. Registrant adopted the accounting guidance on fair value measurements effective January 1, 2008 for financial assets and liabilities measured on a recurring basis. The accounting guidance applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. There was no impact in the adoption of the new accounting guidance to the consolidated financial statements. However, the guidance requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability, or

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Registrant s valuation model utilizes various inputs that include quoted market prices for energy over the duration of the contracts. The market prices used to determine the fair value for this derivative instrument were estimated based on independent sources such as broker quotes and publications that are not observable in or corroborated by the market. Registrant receives one broker quote to determine the fair value of its derivative instrument. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Accordingly, the valuation of the derivative on Registrant s new purchased power contract has been classified as Level 3 for all periods presented.

The following tables present changes in the fair value of the derivative for the three and nine months ended September 30, 2009 and 2008.

	For The Three Months Ended September 30,	
(dollars in thousands)	**2009**	**2008**
Balance, at beginning of the period	$ (8,547)	$ 2,953
Unrealized (loss) gain on purchased power contracts	1,521	(3,741)
Balance, at end of the period	$ (7,026)	$ (788)

	For The Nine Months Ended September 30,	
(dollars in thousands)	**2009**	**2008**
Balance, at beginning of the period	$	$ (1,554)
Unrealized (loss) gain on purchased power contracts	(7,026)	766
Balance, at end of the period	$ (7,026)	$ (788)

For the three and nine months ended September 30, 2009, the unrealized gains (losses) were included in regulatory assets. For the three and nine months ended September 30, 2008, the unrealized (losses) and gains were included in operating expenses.

Note 5 Fair Value of Financial Instruments:

For cash and cash equivalents, accounts receivable, accounts payable and short-term debt, the carrying amount is assumed to approximate fair value due to the short-term nature of the amounts. The table below estimates the fair value of long-term debt held by the utility subsidiaries. Rates available to the utility subsidiaries at September 30, 2009 and December 31, 2008 for debt with similar terms and remaining maturities were used to estimate fair value for long-term debt. Changes in the assumptions will produce differing results.

	September 30, 2009		December 31, 2008	
(dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Long-term debt GSWC	$ 300,661	$ 332,518	$ 260,887	$ 304,069
Long-term debt CCWC	6,285	5,884	6,285	6,123
Total AWR	$ 306,946	$ 338,402	$ 267,172	$ 310,192

In March 2009, GSWC issued a 6.7% Senior Note due March 10, 2019 with an aggregate principal amount of $40.0 million.

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Note 6 Income Taxes:

As a regulated utility, GSWC treats certain temporary differences as flow-through adjustments in computing its income tax provision 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 (ETR) 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.

Registrant s policy is to classify interest on income tax over/underpayments in interest income/expense and penalties in operating expenses.

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 at March 31, 2009 to reflect the expected amount at which it will realize its California deferred taxes consistent with the change in tax law, as well as refining certain related estimates. This resulted in the recording of a benefit of approximately $918,000 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. Quarterly, management will assess its intention to apply the alternative method and will adjust its deferred tax balances accordingly.

GSWC continues to compute its state tax provision as if it were autonomous and not a member of AWR s unitary group. This approach is consistent with the methodology used for ratemaking purposes. Given that 100 percent of GSWC s activities are conducted within California, GSWC s state tax provision does not reflect apportionment of its income; consequently, the change in California law has had no effect upon GSWC s state taxes.

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Note 7 Employee Benefit Plans:

The components of net periodic benefit costs, before allocation to the overhead pool, for Registrant s pension plan, postretirement plan, and Supplemental Executive Retirement Plan (SERP) for the three and nine months ended September 30, 2009 and 2008 are as follows:

	For The Three Months Ended September 30,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2009	2008	2009	2008	2009	2008
Components of Net Periodic Benefits Cost:						
Service cost	$ 1,082	$ 896	$ 86	$ 86	$ 87	$ 60
Interest cost	1,435	1,350	160	161	83	63
Expected return on plan assets	(972)	(1,235)	(52)	(63)		
Amortization of transition			105	105		
Amortization of prior service cost (benefit)	30	30	(50)	(50)	40	230
Amortization of actuarial loss (gain)	572					(14)
Net periodic pension cost	$ 2,147	$ 1,041	$ 249	$ 239	$ 210	$ 339

	For The Nine Months Ended September 30,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2009	2008	2009	2008	2009	2008
Components of Net Periodic Benefits Cost:						
Service cost	$ 3,246	$ 2,688	$ 258	$ 258	$ 261	$ 180
Interest cost	4,305	4,050	480	483	249	189
Expected return on plan assets	(2,916)	(3,705)	(156)	(189)		
Amortization of transition			315	315		
Amortization of prior service cost (benefit)	90	90	(150)	(150)	120	690
Amortization of actuarial loss (gain)	1,716					(42)
Net periodic pension cost	$ 6,441	$ 3,123	$ 747	$ 717	$ 630	$ 1,017

Registrant has contributed approximately $8.6 million to the pension plan and expects to contribute $570,000 to the postretirement medical plan later in 2009. During the three and nine months ended September 30, 2009, $7.4 million and $8.6 million was contributed to the pension plan, respectively. In May 2009, the Board of Directors approved the establishment of a Rabbi Trust created for the SERP plan. An amount of $842,000 was deposited in the trust on June 15, 2009.

There was a significant increase in the underfunded status of the pension plan during 2008. This was primarily due to a significant decrease in the fair value of plan assets due to market conditions during 2008. The increase in the underfunded status of the pension plan resulted in higher pension costs during the three and nine months ended September 30, 2009 compared to the same period in 2008. However, during the nine months ended September 30, 2009, the fair value of the pension plan assets increased by approximately 21.5% since December 31, 2008.

Note 8 Contingencies:

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 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).

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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 PRP s future costs associated with the treatment of these wells. In this same suit, the PRP s have filed cross-complaints against the Water Entities, the Metropolitan Water District, 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 US 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 PRP s and the Water Entities. EPA is also conducting settlement discussions with several PRP s 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 with a number of the PRP s are being finalized; however, Registrant is presently unable to predict the ultimate outcome of these settlement discussions.

***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, however, 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.

Although the City of Claremont, California (the City) located in GSWC s Region III, has not initiated the formal condemnation process pursuant to California law, the City has expressed various concerns to GSWC about the rates charged by GSWC and the effectiveness of the CPUC s rate-setting procedures. As of September 30, 2009, management believes that the fair market value of the Claremont water system exceeds its $42.4 million recorded net book value. The Claremont City council members agreed that the acquisition of GSWC s water system was to remain a priority and authorized staff to obtain updated appraisals for the value of the water systems. In meetings held in 2008 and 2009, the Claremont City Council stated that they had decided to authorize additional studies of the acquisition of GSWC s water system and planned to move forward on this matter.

The Town of Apple Valley (the Town) abandoned its activities related to a potential condemnation of GSWC s water system serving the Town in 2007. However, in April 2009, the Town announced that it will again consider a potential takeover of GSWC s Apple Valley water systems as well as those of another privately-owned utility. The Town Council has directed staff to research the costs associated with updating the previously prepared financial feasibility study for the acquisition of GSWC s water system.

Except for the City of Claremont and the Town of Apple Valley, Registrant has not been, within the last three years, 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 Registrant s service areas during the past three years.

***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. The plaintiff s lawsuit sought an adjudication of the Santa Maria Groundwater Basin (the Basin). A stipulated settlement of the lawsuit has been reached, subject to CPUC approval. The settlement, among other things, if approved by the CPUC, would preserve GSWC s historical pumping rights and secure supplemental water rights for use in case of drought or other reductions in the natural yield of the Basin. GSWC, under the stipulation, has a right to 10,000 acre-feet of groundwater replenishment provided by the Twitchell Project, a storage and flood control reservoir project operated by the Santa Maria Valley Conservation District. A monitoring and annual reporting program has been established to allow the parties to responsibly manage the Basin and to respond to shortage conditions. If severe water shortage conditions are found over a period of five years, the management area engineer will make findings and recommendations to alleviate such shortages. If the Basin experiences severe shortage conditions, the court has the authority to limit GSWC s groundwater production to 10,248 acre-feet per year, based on developed water in the Basin.

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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 to this judgment, the court retains jurisdiction over all of the parties to make supplemental orders or to amend the judgment as necessary. On March 20, 2008, the non-stipulating parties filed notices of appeal. Registrant is unable to predict the outcome of the appeal.

Aerojet Note Receivable:

Pursuant to the settlement agreement with Aerojet, GSWC has an $8.0 million note receivable, plus $2.5 million of accrued interest, guaranteed by Aerojet. This note, plus interest on the unpaid balance, is scheduled to be paid by Aerojet in installments over five years beginning in December 2009. In January 2009, Moody s Investors Service downgraded the corporate family ratings of GenCorp Inc., Aerojet s parent, further to B3 from B2 and its probability of default rating to Caa1 from B2. Obligations rated B are considered speculative by Moody s and are, in Moody s view, subject to high credit risk and have generally poor credit quality. Obligations rated Caa1 are judged by Moody s to be of poor credit standing and are, in Moody s view, subject to very high credit risk and have extremely poor credit quality. On March 31, 2009, Standard & Poor s Ratings Services, or S&P, lowered its ratings on GenCorp to CCC+ from B+ with a developing outlook. On October 14, 2009, S&P revised its outlook to positive. An S&P rating of CCC indicates a current identifiable vulnerability to default by S&P that is, in S&P s view, dependent upon favorable business, financial and economic conditions to meet timely payment of interest and repayment of principal. At this time, management believes the note receivable from Aerojet is still fully collectible and has not provided a reserve for uncollectible amounts as of September 30, 2009. GSWC will continue to assess recoverability of this note receivable.

Air Quality Management District:

In 1998, the South Coast Air Quality Management District (AQMD) issued a permit to GSWC for the installation and use of air stripping equipment at one of GSWC s groundwater treatment systems in its Region II service area. In 2005, the AQMD conducted an inspection of this facility (Watson Well) and issued a Notice of Violation (NOV) for exceeding the amount of groundwater permitted to be treated by the treatment system during calendar year 2004. In 2007, GSWC reached a settlement of the NOV with the AQMD. As part of the settlement, GSWC agreed to perform a Supplemental Environmental Program (SEP) that included installation and operation of granular activated carbon (GAC) filters at the facility. The AQMD accepted this agreement and assessed a nominal penalty. In February 2009, GSWC began operating the permanent GAC treatment system at the Watson Plant. GSWC submitted a final report to the AQMD indicating the completion of the SEP in April 2009. AQMD has acknowledged the completion of the SEP and therefore, management believes that GSWC has fulfilled its obligations under the settlement with AQMD and no further penalties are expected to be assessed. GSWC has spent approximately $895,000 as of September 30, 2009 on the GAC treatment system. Management also believes it is probable that the capital costs incurred on this project will be approved in rate-base by the CPUC.

Environmental Clean-Up and Remediation:

Chadron Plant: GSWC has been involved in environmental remediation and clean-up at a plant site (Chadron Plant) that contained an underground storage tank which was used to store gasoline for its vehicles. This tank was removed from the ground in July 1990 along with the dispenser and ancillary piping. Since then, GSWC has been involved in various remediation activities at this site. GSWC is undertaking a multi-phase extraction cleanup program at the site. The second phase, which includes the cleanup of the groundwater, is expected to begin as soon as the extraction phase is completed. GSWC expects remediation to take at least two more years, followed by two years of monitoring and reporting.

As of September 30, 2009, the total spent to clean-up and remediate GSWC s plant facility is approximately $2.3 million, of which $1.5 million has been paid by the State of California Underground Storage Tank Fund and $800,000 has been included in rate-base and approved by the CPUC for recovery. As of September 30, 2009, GSWC has an accrued liability for the estimated additional cost of $1.1 million to complete the clean-up at the site. The ultimate cost may vary as there are many unknowns in remediation of underground gasoline spills and this is an estimate based on currently available information. Management also believes it is probable that the additional costs of remediation will be approved in rate-base by the CPUC.

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Ballona Plant: During the first quarter of 2008, hydrocarbon contaminated soil was found at a plant site (Ballona Plant) located in GSWC s Southwest customer service area where an abandoned water tank was demolished. An initial investigation and characterization of the contaminated area has been conducted. The investigation report indicates that contamination levels are below normal cleanup goals. However, GSWC contacted a local agency to get direction on what cleanup, if any, is required. The local agency inspected the site in July 2009 and recommended excavation and cleanup of the soil. At this time, management is unable to estimate the cost of cleanup for this site. Historically, the cost for this type of cleanup has been included in rates as approved by the CPUC.

Mirant Settlement:

GSWC had previously filed a complaint with the Federal Energy Regulatory Commission (FERC) seeking to reduce the $95 per MWh rate in a contract entered into in 2001 with Mirant Americas Energy Marketing (Mirant Marketing) to a just and reasonable price. In May 2009, GSWC reached a settlement agreement with Mirant Energy Trading, LLC, which acquired the power contract from Mirant Marketing as a result of a bankruptcy reorganization. Pursuant to that settlement agreement, GSWC filed with the FERC a notice of the withdrawal of its complaint. The settlement agreement required Mirant Energy Trading to pay $1 million as a cash settlement to GSWC after the withdrawal of the complaint at the FERC became effective. On May 26, 2009, the $1 million cash settlement was received and GSWC recorded a corresponding reduction to previously incurred legal costs in the second quarter of 2009, which increased pretax earnings during the nine months ended September 30, 2009.

Other Litigation:

Two former officers of GSWC filed a lawsuit against both AWR and GSWC alleging among other things, wrongful termination and retaliation against the former officers. Management believes that the allegations are without merit and intends to vigorously defend against them. The trial is set to commence on February 18, 2010. Based on management s understanding of all the claims, management does not believe that the ultimate resolution of this matter will have a material adverse effect on AWR s and GSWC s financial position, results of operations, or cash flows.

Registrant is also subject to other 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. Registrant is unable to predict an estimate of the loss, if any, resulting from any pending suits or administrative proceedings.

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Note 9 Business Segments:

AWR has three reportable segments, water, electric and contracted services, whereas GSWC has two segments, water and electric. 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 a contracted services unit conducted through ASUS and its subsidiaries. All activities of GSWC are geographically located within California. All activities of CCWC are located in the state of Arizona. Activities of ASUS and its subsidiaries are presently conducted in California, Maryland, New Mexico, North Carolina, South Carolina, Texas and Virginia. Both GSWC and CCWC are rate-regulated utilities. ASUS wholly-owned subsidiaries are regulated by the respective state in which the military base on which they operate is primarily located. On a stand-alone basis, AWR has no material assets other than its investments in its subsidiaries. The tables below set forth information relating to GSWC s operating segments, CCWC, ASUS and its subsidiaries, and AWR Parent. Certain assets, revenues and expenses have been allocated in the amounts set forth. The identifiable assets are net of respective accumulated provisions for depreciation. Capital additions reflect capital expenditures paid in cash and exclude property installed by developers and conveyed to GSWC or CCWC.

	As Of And For The Three Months Ended September 30, 2009					
	GSWC		CCWC	ASUS	AWR	Consolidated
(dollars in thousands)	Water	Electric	Water	Contracts	Parent	AWR
Operating revenues	$ 76,121	$ 6,563	$ 2,176	$ 16,641	$	$ 101,501
Operating income (loss)	21,122	(669)	(444)	2,456	(10)	22,455
Interest expense, net	4,964	559	102	86	(23)	5,688
Identifiable assets	771,578	36,842	44,802	3,072		856,294
Depreciation and amortization expense	7,151	565	510	174		8,400
Capital additions	16,812	340	370	1,171		18,693

	As Of And For The Three Months Ended September 30, 2008					
	GSWC		CCWC	ASUS	AWR	Consolidated
(dollars in thousands)	Water	Electric	Water	Contracts	Parent	AWR
Operating revenues	$ 67,316	$ 6,743	$ 2,049	$ 9,153	$	$ 85,261
Operating income (loss)	18,060	(4,011)(1)	524	(1,418)	(12)	13,143
Interest expense, net	4,101	633	96	204	101	5,135
Identifiable assets	730,849	37,803	44,468	2,339		815,459
Depreciation and amortization expense	6,700	552	461	169		7,882
Capital additions	19,279	172	904			20,355

(1) Includes $3,741,000 unrealized loss on purchased power contracts.

	As Of And For The Nine Months Ended September 30, 2009					
	GSWC		CCWC	ASUS	AWR	Consolidated
(dollars in thousands)	Water	Electric	Water	Contracts	Parent	AWR
Operating revenues	$ 203,594	$ 21,083	$ 5,654	$ 44,332	$	$ 274,663
Operating income (loss)	55,740	(1,141)	(680)	4,539	(71)	58,387
Interest expense, net	13,834	1,613	310	275	111	16,143
Identifiable assets	771,578	36,842	44,802	3,072		856,294
Depreciation and amortization expense	21,456	1,694	1,505	493		25,148
Capital additions	52,189	929	1,194	1,321		55,633

	As Of And For The Nine Months Ended September 30, 2008					
	GSWC		CCWC	ASUS	AWR	Consolidated
(dollars in thousands)	**Water**	**Electric**	**Water**	**Contracts**	**Parent**	**AWR**
Operating revenues	$ 181,235	$ 21,754	$ 5,589	$ 25,938	$	$ 234,516
Operating income (loss)	47,971	1,073(2)	837	(2,567)	(128)	47,186
Interest expense, net	12,174	1,491	330	639	37	14,671
Identifiable assets	730,849	37,803	44,468	2,339		815,459
Depreciation and amortization expense	20,089	1,657	1,382	357		23,485
Capital additions	54,734	721	2,322	1,210		58,987

(2) Includes $766,000 unrealized gain on purchased power contracts.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

General

American States Water Company (AWR) is the parent company of Golden State Water Company (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 a contracted services unit 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. GSWC also distributes electricity in one customer service area. GSWC is regulated by the California Public Utilities Commission (CPUC) and was incorporated as a California corporation on December 31, 1929. GSWC is organized into one electric customer service area and three water service regions operating within 75 communities in 10 counties in the State of California and provides water service in 21 customer service areas. Region I consists of 7 customer service areas in northern and central California; Region II consists of 4 customer service areas located in Los Angeles County; and Region III consists of 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 255,028 water customers and 23,055 electric customers at September 30, 2009, or a total of 278,083 customers, compared with 254,689 water customers and 23,091 electric customers, or a total of 277,780 customers at September 30, 2008. 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 approximately 91% of total water revenues for the three months ended September 30, 2009 and 2008 and approximately 88% for the nine months ended September 30, 2009 and 2008.

CCWC is an Arizona public utility company serving 13,397 customers at September 30, 2009, compared with 13,437 customers at September 30, 2008. 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.

ASUS, through its wholly-owned subsidiaries, has contracted with the U.S. government to provide water and/or wastewater services, including both the operation and maintenance and the renewal and replacement of the water and/or wastewater systems pursuant to 50-year fixed price contracts, which are subject to periodic prospective price redeterminations and modifications for changes in circumstances. All of the contracts with the U.S. government may be terminated, in 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 is 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 for 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 on all of ASUS military 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;

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- 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.

ASUS and GSWC have also been pursuing opportunities to provide retail water services within the service area of the Natomas Central Mutual Water Company (Natomas). Natomas is a California mutual water company which currently provides water service to its shareholders, primarily for agricultural irrigation in portions of Sacramento and Sutter counties in northern California. GSWC and Natomas have entered into various agreements for the purchase of certain water and water rights that may allow GSWC the ability to serve portions of Sutter County in the future.

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; 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 a variety of other causes; capital expenditures needed to upgrade water systems; and risks associated with litigation relating to water quality and water supply, including suits initiated by Registrant to protect its water supply.

Operating revenues and income from contracted services at ASUS and its subsidiaries are earned primarily 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. All of the operations and maintenance and renewal and replacement contracts with the U.S. government are 50-year firm, fixed-price contracts with prospective price redeterminations. ASUS also may generate revenues from the construction of infrastructure improvements at these bases pursuant to the terms of these 50-year contracts or pursuant to contract modifications. Additional revenues generated by contract operations are primarily dependent on these additional construction activities. As a result, ASUS is subject to risks that are different than those of Registrant s regulated 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 timing of implementation by the U.S. government of redeterminations and/or equitable adjustments of prices under contracts with the U.S. government.

Registrant plans to continue to seek additional rate increases in future years to recover operating and supply costs and receive reasonable returns on invested capital. Capital expenditures in future years are expected to remain at much higher levels than depreciation expense. Cash solely from operations is not expected to be sufficient to fund Registrant s needs for capital expenditures, investments in Registrant s contract business and other cash requirements. Registrant expects to fund a portion of these needs through common stock offerings, as well as from long- and short- term borrowings. In May 2009, AWR completed a public offering of 1,150,000 shares of its Common Shares, including 150,000 shares issued upon exercise of an option granted to the underwriters to cover over-allotments, at a price to the public of $31 per share. The net proceeds from the offering were $34.0 million, after deductions for underwriting commissions and discounts, and direct legal and accounting fees. The

Company used the proceeds of the offering to repay short-term debt. In addition, a senior note was issued by GSWC on March 10, 2009, to CoBank, ACB (CoBank). Under the terms of this senior note, CoBank purchased a 6.7% Senior Note due March 10, 2019 in the aggregate principal amount of $40.0 million from GSWC. The proceeds from the sale of the note to CoBank have been used to pay down short-term borrowings, pending their use to fund capital expenditures.

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Net income for the three months ended September 30, 2009 was $9.7 million compared to $4.6 million in the same period of 2008, an increase of 113.0%. Diluted earnings per share for the three months ended September 30, 2009 were $0.52 compared to $0.26 in the same period of 2008, an increase of $0.26 per share. Increasing diluted earnings per share were the following items, all of which are more fully discussed later: (i) a $3.7 million pretax unrealized loss on purchased power contracts, or $0.13 per share, for the three months ended September 30, 2008 with no corresponding loss in 2009; (ii) an increase in the dollar water margin of $4.7 million, or $0.15 per share; and (iii) the improved financial performance of the Military Utility Privatization Subsidiaries resulting in an increase in ASUS pretax operating income of $3.9 million, or $0.12 per share (including a $1.1 million contract modification approved in September 2009 in connection with a request for equitable adjustment filed by PSUS in 2008). These increases to diluted earnings per share were partially offset by: (i) an increase in operating expenses, other than supply costs, at the Company s water and electric utilities of $2.2 million, or $0.07 per share; (ii) an increase in interest expense, net of interest income of $553,000, or $0.02 per share; (iii) the recording of a loss on settlement for removal of wells at CCWC of $760,000, or $0.02 per share; and (iv) a decrease of $0.03 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.

Net income for the nine months ended September 30, 2009 was $26.1 million compared to $19.1 million in the same period of 2008, an increase of 36.5%. Diluted earnings per share for the nine months ended September 30, 2009 were $1.45 compared to $1.10 in the same period of 2008, an increase of $0.35 per share. Increasing diluted earnings per share were the following items, all of which are more fully discussed later: (i) an increase in the water dollar water margin of $11.2 million, or $0.37 per share, during the nine months ended September 30, 2009 compared to the same period of 2008; (ii) a settlement agreement reached with Mirant Energy Trading, LLC and the recording of the $1.0 million proceeds received, or $0.03 per share, as a reduction in legal expenses; (iii) the improved financial performance of the Military Utility Privatization Subsidiaries resulting in an increase in ASUS s pretax operating income of $7.1 million, or $0.23 per share (including the $1.1 million modification mentioned above); and (iv) a decrease in the effective tax rate (ETR) and a tax benefit of $918,000 recorded in the first quarter of 2009 resulting from new California apportionment laws as well as refining certain related estimates, which favorably impacted earnings by $0.07 per share. These increases to diluted earnings per share were partially offset by: (i) a $766,000 pretax unrealized gain on purchased power contracts in 2008, or $0.03 per share, for the nine months ended September 30, 2008 with no corresponding gain in 2009; (ii) an increase in operating expenses, other than supply costs, at the Company s water and electric utilities of $6.3 million, or $0.21 per share (excluding the Mirant settlement discussed above), (iii) the recording of a $760,000 loss on settlement for the removal of wells at CCWC, or $0.02 per share; (iv) an increase in interest expenses net of interest income of $1.5 million, or $0.05 per share; and (v) 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.

Unrealized gains and losses on previous purchased power contracts impacted GSWC s earnings since the contracts qualified as derivative instruments under the accounting guidance for derivatives. Historical purchased power contracts that impacted earnings terminated at December 31, 2008. GSWC entered into a new purchased power contract effective January 1, 2009 which is also subject to derivative accounting treatment. In May 2009, the CPUC issued a final decision approving the new purchased power contract and authorizing GSWC to establish the memorandum account to track unrealized gains and losses on the new contract throughout the term of the contract. Accordingly, at September 30, 2009 there was a $7.0 million cumulative unrealized loss which has been included in the memorandum account, therefore not impacting GSWC s earnings.There were $3.7 million of pretax unrealized losses and $766,000 of pretax unrealized gains on purchased power contracts included in earnings for the three and nine months ended September 30, 2008, respectively. Diluted earnings for the three and nine months ended September 30, 2008 were $0.26 per share and $1.10 per share, respectively. Eliminating the effects of the unrealized derivative loss and gains, adjusted diluted earnings per share for the three and nine months ended September 30, 2008 would have increased by $0.13 and decreased by $0.03 per share, respectively, to $0.39 and $1.07 per share, respectively.

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Summary Results by Segment

AWR has three reportable segments: water, electric and contracts operation. 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 a contracted services unit through ASUS and its subsidiaries.

Third Quarter Results

The tables below set forth summaries of the results by segment (amounts in thousands):

	Operating Revenues				Pretax Operating Income			
	3 Months Ended 9/30/2009	3 Months Ended 9/30/2008	$ CHANGE	% CHANGE	3 Months Ended 9/30/2009	3 Months Ended 9/30/2008	$ CHANGE	% CHANGE
Water	$ 78,297	$ 69,365	$ 8,932	12.9%	$ 20,678	$ 18,584	$ 2,094	11.3%
Electric	6,563	6,743	(180)	-2.7%	(669)	(4,011)	3,342	-83.3%
Contracted services	16,641	9,153	7,488	81.8%	2,456	(1,418)	3,874	-273.2%
AWR parent					(10)	(12)	2	-16.7%
Totals from operations	$ 101,501	$ 85,261	$ 16,240	19.0%	$ 22,455	$ 13,143	$ 9,312	70.9%

Water - For the three months ended September 30, 2009, pretax operating income for water increased by $2.1 million, or 11.3%, primarily due to a $4.7 million increase in the water dollar margin as compared to the same period in 2008, partially offset by an increase in operating expenses, including higher pension costs. The dollar water margin increased due to higher water rates approved by the CPUC subsequent to September 30, 2008. These higher water rates increased water revenue by $2.9 million, partially offset by lower actual consumption. In addition, as a result of implementing the Water Revenue Adjustment Mechanism (WRAM) accounts in Regions II and III in late November 2008 and in Region I in September 2009, GSWC recorded $8.6 million of additional revenues for the three months ended September 30, 2009. The revenue requirement and volumetric revenues are adopted as part of a General Rate Case (GRC) every three years. We expect to file Region I s next GRC in January 2010, with rates effective January 2011 and 2012, and a GRC for all three water regions in July of 2011 with rates effective January 2013. As part of future GRCs, the CPUC is expected to adopt new volumetric revenues based on historical usage patterns and the revenue requirement adopted in these GRCs.

Although the recording of the WRAM added $8.6 million of water revenues, this favorable impact to earnings was reduced by $1.6 million of water supply over-collection costs tracked in the Modified Cost Balancing Account (MCBA), also implemented in late November 2008 for Regions II and III and in September 2009 for Region I. The over-collection in the MCBA account is due to: (i) lower consumption in the third quarter of 2009 as compared to the consumption level adopted by the CPUC, and (ii) a lower percentage of purchased water in the supply mix during 2009 when compared to the supply mix included in customer rates, partially offset by increases in rates charged by GSWC s suppliers. The implementation of the WRAM and MCBA help mitigate fluctuations in the Company s earnings caused by changes in the volume of water sold and supply costs.

Electric For the three months ended September 30, 2009 as compared to the same period in 2008, pretax operating income from electric operations increased by $3.3 million due in large part to a $3.7 million pretax unrealized loss on purchased power contracts recorded in 2008. This unrealized loss on purchased power contracts decreased operating income by approximately $3.7 million during the third quarter of 2008, or $0.13 per share, with no corresponding loss in 2009. As previously discussed, the purchased power contract that resulted in unrealized gains and losses to BVES earnings terminated at December 31, 2008. Excluding the effects of the unrealized loss in 2008, BVES pretax operating loss increased by approximately $400,000 from $270,000 for the three months ended September 30, 2008 to $669,000 for the same period of 2009. This was primarily due to an increase in administrative and general expenses resulting from higher outside legal and consulting costs associated with the general rate case.

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Contracted Services - For the three months ended September 30, 2009, pretax operating income for contracted services increased by $3.9 million, or $0.12 per share. This was primarily due to an interim increase in operations and maintenance revenues at FBWS, an increase in construction revenues at FBWS and ODUS, and lower overall operating expenses. In addition, on September 30, 2009, the U.S. government approved $1.1 million in revenues for a Request for Equitable Adjustment (REA) filed by PSUS for emergency construction costs mostly incurred in 2008. As a result of the approved REA, ASUS recorded $1.1 million in additional construction revenues and operating income for the three months ended September 30, 2009. ONUS also had an increase of $273,000 in pretax operating income for the three months ended September 30, 2009 due to lower operating expenses.

The timely receipt of price redeterminations continues to be critical in order for ASUS to recover increasing costs for operating and maintaining the water and wastewater systems at the military bases. In addition, higher allocations of expenses from the General Office and ASUS headquarters to the Military Utility Privatization Subsidiaries were not contemplated at the time the contracts with the U.S. government were negotiated and will be addressed in future price redeterminations. Under the terms of these contracts, the contract price is subject to price redetermination two years after commencement of operations and every three years thereafter.

Redeterminations have been submitted and are under review by the U.S. government for operations of ODUS and TUS in Virginia and Maryland, respectively. The price redeterminations for ODUS and TUS are expected to be completed in late 2009 and in 2010, respectively. Pending redetermination of prices, ASUS has received interim inflation adjustments during 2008 to the management fees for operating and maintaining the water and wastewater systems for military bases in Virginia, and the wastewater system at Fort Lee also in Virginia effective on the second anniversary of the date when ASUS began operating these bases (February 23, 2008 for Fort Lee and April 3, 2008 for the other three bases).

In March 2009, ONUS filed an REA related to a joint inventory report for Fort Bragg in North Carolina. The report indicated the quantity of the ONUS infrastructure to be about 40% greater than what was assumed under the original 50-year contract. The REA is expected to be resolved during the fourth quarter of 2009. First price redetermination filings for Fort Jackson and Fort Bragg are also expected to be filed by PSUS and ONUS, respectively, during the fourth quarter of 2009.

FBWS has experienced delays in the redetermination of prices at Fort Bliss following completion of the first two years of operation in October 2006. At Fort Bliss, management fees for operation and maintenance of the water and wastewater systems are based on cost levels prevailing in 2003 when the contract with the U.S. government was bid. Further, the contract pricing was also based on assumptions about the size and age of the infrastructure to be operated and maintained over the 50-year contract. An REA has been filed as a claim with the U.S. government to adequately reflect the amount of assets included in the infrastructure at Fort Bliss, which is substantially more than originally estimated by the U.S. government as part of its solicitation for this contract. In December 2008, the U.S. government approved an interim adjustment for FBWS which increased the monthly water and wastewater fees by 50% and 59%, respectively, related to operating and maintaining the Fort Bliss systems. The increase was retroactive to October 1, 2008 and expired on September 30, 2009. FBWS is negotiating with the government to extend the interim increases while continuing negotiations to finalize the adjustment necessary due to the increased infrastructure. FBWS also intends to file its first price redetermination request for Fort Bliss during the fourth quarter of 2009 followed by the second redetermination request shortly thereafter.

These price redeterminations and equitable adjustments, which include adjustments to reflect changes in operating conditions and infrastructure levels from that assumed at the time of the execution of the contracts, as well as inflation in costs, are expected to provide added revenues prospectively to help offset increased costs and provide Registrant the opportunity to generate positive operating income at its Military Utility Privatization Subsidiaries. As of September 30, 2009, ASUS has $1.1 million of goodwill, which may be at risk for potential impairment if requested price redeterminations and equitable adjustments that have not yet been approved, are not received.

In September 2009, the U.S. government issued contract modifications to subsidiaries of ASUS. The modifications provided funding for $7.3 million in new construction projects at FBWS, ODUS, TUS and ONUS. The majority of this work will be performed during calendar year 2010. Earnings and cash flows from amendments and modifications for additional construction projects to the original 50-year contracts with the U.S. government may or may not continue in future periods.

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Year-to-Date Results

The tables below set forth summaries of the results by segment (amounts in thousands):

	Operating Revenues				Pretax Operating Income			
	9 Months Ended 9/30/2009	9 Months Ended 9/30/2008	$ CHANGE	% CHANGE	9 Months Ended 9/30/2009	9 Months Ended 9/30/2008	$ CHANGE	% CHANGE
Water	$ 209,248	$ 186,824	$ 22,424	12.0%	$ 55,060	$ 48,808	$ 6,252	12.8%
Electric	21,083	21,754	(671)	-3.1%	(1,141)	1,073	(2,214)	-206.3%
Contracted services	44,332	25,938	18,394	70.9%	4,539	(2,567)	7,106	-276.8%
AWR parent					(71)	(128)	57	-44.5%
Totals from operations	$ 274,663	$ 234,516	$ 40,147	17.1%	$ 58,387	$ 47,186	$ 11,201	23.7%

Water - Pretax operating income for water increased by $6.3 million, or 12.8%, primarily due to an $11.2 million increase in the dollar water margin as compared to the same period in 2008, partially offset by an increase in operating expenses including higher pension costs. The dollar water margin increased due to higher water rates approved by the CPUC subsequent to September 30, 2008. These higher water rates increased water revenue by approximately $6.9 million, partially offset by lower actual consumption. In addition, as a result of implementing the WRAM accounts in all its water regions, GSWC recorded $15.2 million of additional revenues for the nine months ended September 30, 2009.

Although the recording of the WRAM added $15.2 million of water revenues, this favorable impact to earnings was reduced by $3.4 million of water supply over-collection costs tracked in the MCBA account, also implemented in all of GSWC s water regions. The over-collection in the MCBA account is due to: (i) lower consumption for the nine months ended September 30, 2009 as compared to the consumption level approved by the CPUC, and (ii) a lower percentage of purchased water in the supply mix during 2009 when compared to the supply mix included in customer rates, partially offset by increases in rates charged by GSWC s suppliers. The implementation of the WRAM and MCBA help mitigate fluctuations in the Company s earnings caused by changes in the volume of water sold and supply costs.

In addition, during the nine months ended September 30, 2009, GSWC recorded $3.1 million of additional water revenues included in the Water Conservation Memorandum Account (WCMA) for all of its water regions. The CPUC had approved an advice letter filing in a separate proceeding to allow GSWC to create and implement a WCMA to track the extraordinary expenses and revenue shortfall associated with conservation measures in conjunction with the declared drought in California. The WCMA was effective August 18, 2008 and was used to track the revenue shortfall until the WRAM was implemented for Regions II and III on November 25, 2008 and for Region I on September 1, 2009. At November 24, 2008, approximately $2.0 million of net under-collections was included in the WCMA for Regions II and III prior to the implementation of the WRAM. On April 16, 2009, the CPUC approved the advice letter filed by GSWC to recover the $2.0 million included in the WCMA for Regions II and III and authorized GSWC to establish a 12-month surcharge to customers bills. The surcharge went into effect on April 21, 2009. Accordingly, GSWC established a $2.0 million regulatory asset, which was recorded as additional water revenues during the second quarter of 2009. In addition, GSWC has established a $1.1 million regulatory asset for Region I s WCMA balance incurred during the period of August 18, 2008 through August 31, 2009 which we believe is also now probable of recovery. In October 2009, GSWC filed advice letters for recovery of Region I s WCMA, through a 12-month surcharge, for amounts incurred during this period.

Electric For the nine months ended September 30, 2009, pretax operating income from electric operations decreased by $2.2 million due in part to a decrease in the dollar electric margin of $307,000 as a result of lower usage as compared to the same period last year. There was also an increase in operating expenses including higher outside consulting and legal costs related to the general rate case and the purchased power contract, and higher franchise fees. However, these increases in operating costs were partially offset by the recording of the $1.0 million in proceeds received in the settlement agreement with Mirant Energy Trading, LLC in May 2009, which reduced previously incurred legal costs. In addition, pretax operating income for the nine months ended September 30, 2008 included a $766,000 pretax unrealized gain on purchased power contracts with no corresponding gain in 2009.

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Contracted Services - For the nine months ended September 30, 2009, pretax operating income for contracted services increased by $7.1 million, or $0.23 per share. This was primarily due to an interim increase in operations and maintenance revenues at FBWS, an increase in new construction projects at FBWS and ODUS, and lower overall operating expenses. In addition, on September 30, 2009, the U.S. government approved $1.1 million in revenues for an REA filed by PSUS for emergency construction costs mostly incurred in 2008. As a result of the approved REA, ASUS recorded $1.1 million in additional construction revenues and operating income for the nine months ended September 30, 2009. During the nine months ended September 30, 2009, Fort Bragg continued to operate at a loss; however, the pretax operating loss for the nine months ended September 30, 2009 decreased by $396,000 as compared to the same period in 2008 due primarily to an increase in construction revenues.

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, and ASUS and its subsidiaries.

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Consolidated Results of Operations Three Months Ended September 30, 2009 and 2008 (amounts in thousands):

	3 Months Ended 9/30/2009	3 Months Ended 9/30/2008	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 78,297	$ 69,365	$ 8,932	12.9%
Electric	6,563	6,743	(180)	-2.7%
Contracted services	16,641	9,153	7,488	81.8%
Total operating revenues	101,501	85,261	16,240	19.0%
OPERATING EXPENSES				
Water purchased	14,151	15,087	(936)	-6.2%
Power purchased for pumping	3,335	3,484	(149)	-4.3%
Groundwater production assessment	3,247	2,791	456	16.3%
Power purchased for resale	2,793	3,345	(552)	-16.5%
Unrealized loss on purchased power contracts		3,741	(3,741)	-100.0%
Supply cost balancing accounts	4,806	(490)	5,296	-1080.8%
Other operation expenses	7,663	7,366	297	4.0%
Administrative and general expenses	17,018	16,307	711	4.4%
Depreciation and amortization	8,400	7,882	518	6.6%
Maintenance	4,052	4,027	25	0.6%
Property and other taxes	3,555	3,461	94	2.7%
ASUS construction expenses	9,266	5,117	4,149	81.1%
Loss on settlement for removal of wells	760		760	100.0%
Total operating expenses	79,046	72,118	6,928	9.6%
OPERATING INCOME	22,455	13,143	9,312	70.9%
OTHER INCOME AND EXPENSES				
Interest expense	(5,861)	(5,428)	(433)	8.0%
Interest income	173	293	(120)	-41.0%
Other	38	(30)	68	-226.7%
	(5,650)	(5,165)	(485)	9.4%
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE	16,805	7,978	8,827	110.6%
Income tax expense	7,107	3,426	3,681	107.4%
NET INCOME	$ 9,698	$ 4,552	$ 5,146	113.0%

Net income for the three months ended September 30, 2009 was $9.7 million, equivalent to $0.52 per common share on a basic and fully diluted basis, compared to $4.6 million or $0.26 per common share on a basic and fully diluted basis for the three months ended September 30, 2008.

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Impacting the comparability in the results of the two periods are the following items which increased diluted earnings per share by $0.26:

- An unrealized loss on purchased power contracts in 2008 which decreased pretax income by $3.7 million, or $0.13 per share. These purchased power contracts expired on December 31, 2008 and GSWC began taking delivery of power under a new contract effective January 1, 2009. As previously discussed, the CPUC issued a decision approving the new contract and authorizing GSWC to establish a memorandum account to track unrealized gains and losses on the new contract throughout the term of the contract. Accordingly, during the three months ended September 30, 2009, there was a $1.5 million unrealized gain which has been included in the memorandum account, therefore not impacting GSWC s earnings.

- The dollar water margin increased by $4.7 million, or $0.15 per share, during the three months ended September 30, 2009 as compared to the same period in 2008 due primarily to: (i) higher water rates approved by the CPUC effective January 1, 2009; (ii) the water margin impact of recording the WRAM and MCBA of approximately $7.0 million, or $0.22 per share; and (iii) the recording of $297,000 in Region I s Water Conservation Memorandum Accounts. These increases were partially offset by lower water consumption of approximately 9% when compared to same period in 2008.

- Operating expenses, other than supply costs, increased at the Company s water and electric utilities by $2.2 million, or $0.07 per share, for the third quarter of 2009 due to: (i) an increase of $829,000 in pension expenses resulting from an increase in the underfunded position of the pension plan; (ii) an increase of $721,000 in water treatment costs and; (iii) an increase of $514,000 in depreciation and amortization expense.

- Pretax operating income for contracted services increased by $3.9 million, or $0.12 per share, during the three months ended September 30, 2009 due primarily to an increase in special construction projects at FBWS and ODUS, improved performance at PSUS and ONUS as compared to the prior year, and the receipt of an equitable adjustment of $1.1 million at PSUS for emergency construction costs previously incurred at Fort Jackson, South Carolina. The majority of the costs on these projects at Fort Jackson had been previously recognized by ASUS as construction expense in 2008. The recognition of construction revenues was pending the approval of the request for equitable adjustment by the U.S. government. As a result of this modification, ASUS recognized construction revenues and operating income of $1.1 million during the third quarter of 2009.

- The recording of a loss at CCWC on the settlement for removal of wells of $760,000, or $0.02 per share, resulting from a decision issued by the ACC on October 8, 2009.

- An increase in interest expense, net of interest income of $553,000, or $0.02 per share, due to an increase in long-term debt resulting from the issuance of $40.0 million of notes in March 2009 and the recording of $159,000 in the interest rate balancing account as approved in July 2009 in the cost of capital proceeding.

- A decrease of $0.03 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.

Operating Revenues

<u>*Water*</u>

For the three months ended September 30, 2009, revenues from water operations increased by 12.9% to $78.3 million, compared to $69.4 million for the three months ended September 30, 2008. Contributing to this increase were rate increases approved by the CPUC effective January 1, 2009, which added approximately $2.9 million to water revenues in the third quarter of 2009. In addition, as a result of the implementation of the WRAM accounts for Regions II and III in late November of 2008 and September 2009 for Region I, GSWC recorded $8.6 million of additional revenues to adjust the 2009 third quarter revenues to the consumption levels adopted by the CPUC. Furthermore, GSWC recorded $297,000 of additional revenues included in the WCMA conservation memorandum accounts for Region I. Finally, there was an increase in water revenues of $1.8 million due to surcharges approved by the CPUC in effect to recover under-collections in supply costs. These increases were

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partially offset by $4.4 million resulting from a decrease in actual consumption of approximately 9% when compared to the third quarter of 2008.

The revenue requirement and volumetric revenues will be adopted as part of a GRC every three years. Region I will file its next GRC in January 2010 for new rates in 2011 and 2012. A GRC for all three water regions will be filed in July of 2011 with rates effective January 2013. As part of future GRCs, the CPUC is expected to adopt new volumetric revenues based on historical usage patterns and the revenue requirement adopted in these GRCs.

Electric

For the three months ended September 30, 2009, revenues from electric operations decreased by 2.7% to $6.6 million compared to $6.7 million for the three months ended September 30, 2008 due primarily to a decrease in electric usage.

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 three months ended September 30, 2009, revenues from contracted services increased by $7.5 million, or 81.8%, to $16.6 million compared to $9.2 million for the three months ended September 30, 2008 primarily due to higher construction revenues. Construction revenues increased by $7.3 million primarily related to special projects at FBWS and ODUS. Construction revenues at bases served by these subsidiaries increased collectively by $6.1 million (including the construction revenues from special projects) as compared to the third quarter of 2008. 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. In addition, an REA for $1.1 million was approved by the U.S. government and recorded as construction revenue during the third quarter of 2009 for emergency costs incurred and expensed largely in 2008 at PSUS.

For the three months ended September 30, 2009, management fees for operating and maintaining the various systems totaled $3.4 million as compared to $3.1 million for the three months ended September 30, 2008. In December 2008, the U.S. government authorized an interim adjustment for FBWS which increased the monthly water and wastewater fees by 50% and 59%, respectively, pending resolution of FBWS REA filed as a claim, due to inventory adjustments. This resulted in an increase of approximately $289,000 to FBWS management fees for operating and maintaining the system for the third quarter of 2009 as compared to the third quarter of 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, 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.

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 and deducting 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 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.

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for approximately 35.8% and 33.6% of total operating expenses for the three months ended September 30, 2009 and 2008, respectively.

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The table below provides the amount of increases (decreases), percent changes in supply costs, and margins during the three months ended September 30, 2009 and 2008 (amounts in thousands):

	3 Months Ended 9/30/2009	3 Months Ended 9/30/2008	$ CHANGE	% CHANGE
WATER OPERATING REVENUES **(1)**	$ 78,297	$ 69,365	$ 8,932	12.9%
WATER SUPPLY COSTS:				
Water purchased **(1)**	$ 14,151	$ 15,087	$ (936)	-6.2%
Power purchased for pumping **(1)**	3,335	3,484	(149)	-4.3%
Groundwater production assessment **(1)**	3,247	2,791	456	16.3%
Water supply cost balancing accounts **(1)**	3,970	(907)	4,877	-537.7%
TOTAL WATER SUPPLY COSTS	$ 24,703	$ 20,455	$ 4,248	20.8%
WATER MARGIN **(2)**	$ 53,594	$ 48,910	$ 4,684	9.6%
PERCENT MARGIN - WATER	68.4%	70.5%		
ELECTRIC OPERATING REVENUES **(1)**	$ 6,563	$ 6,743	$ (180)	-2.7%
ELECTRIC SUPPLY COSTS:				
Power purchased for resale **(1)**	$ 2,793	$ 3,345	$ (552)	-16.5%
Electric supply cost balancing accounts **(1)**	836	417	419	100.5%
TOTAL ELECTRIC SUPPLY COSTS	$ 3,629	$ 3,762	$ (133)	-3.5%
ELECTRIC MARGIN **(2)**	$ 2,934	$ 2,981	$ (47)	-1.6%
PERCENT MARGIN - ELECTRIC	44.7%	44.2%		

(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 are shown on AWR s Consolidated Statements of Income and totaled $4,806,000 and ($490,000) for the three months ended September 30, 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. In addition, GSWC is authorized to establish water and electric supply cost balancing accounts for increases and/or decreases in costs due to changes in rates charged by its suppliers which provide purchased water and purchased power, and by agencies assessing groundwater related pump taxes for water service areas in California. Higher or lower actual costs as compared to costs authorized by the CPUC will either be recovered from or refunded to customers in the future.

Prior to November 2008, changes in the water resource mix between water supplied from purchased sources and that supplied from Registrant s wells would increase/decrease actual supply-related costs relative to the mix 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 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 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 region).

For the three months ended September 30, 2009, 40.4% of the Company s water supply mix was purchased as compared to 44.3% purchased for the three months ended September 30, 2008. However, as noted above, GSWC implemented the MCBA for Regions II and III in November 2008 and for Region I in September 2009, which prospectively eliminates the effects on earnings of changes in the water supply mix. The adopted percentage of purchased water for the three months ended September 30, 2009 at Regions I, II and III was 23.7%, 65.0% and 48.8%, respectively, as compared to actual purchased water of 23.3%, 42.6% and 45.9%, respectively, for the third quarter of 2009. Region I s supply mix consists primarily of pumped water. The significant variance in Region II s actual mix compared to the mix approved by the CPUC resulted in an over-collection in the MCBA account. This contributed to the overall decrease in the water margin percent to 68.4% in the third quarter of 2009 compared to 70.5% in the same period of 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 three months ended September 30, 2009 decreased by 6.2% to $14.2 million as compared to $15.1 million in the same period of 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 three months ended September 30, 2009, power purchased for pumping decreased to $3.3 million compared to $3.5 million for the same period of 2008. Lower customer demand was partially offset by increases in supplier rates and changes in the actual supply mix, as discussed above. Groundwater production assessments increased by 16.3% 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 $336,000, between the two periods. The MCBA tracks the increases in pump tax rates for future recovery in water rates. These increases in groundwater production assessments were partially offset by lower customer demand.

An increase of $4.9 million in the water supply cost balancing account provision during the three months ended September 30, 2009 as compared to the same period in 2008 was primarily caused by: (i) a $1.8 million increase in the amortization of the water supply cost balancing accounts for surcharges currently in effect; (ii) the recording of $1.6 million in the MCBA accounts; and (iii) a net decrease of $1.5 million of under-collections in 2009 (related to Region I in July and August 2009) compared to the same period in 2008.

For the three months ended September 30, 2009, the cost of power purchased for resale to customers in GSWC s BVES division decreased by 16.5% to $2.8 million compared to $3.3 million for the three months ended September 30, 2008 reflecting lower customer demand. In addition, GSWC began receiving power under a new purchased power contract in 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 Loss on Purchased Power Contracts

Pursuant to the accounting guidance for derivatives, the unrealized loss on purchased power contracts during 2008 represented losses recorded for GSWC s purchased power agreements with Morgan Stanley Capital Group, Inc. There was a $3.7 million pretax unrealized loss on purchased power contracts for the three months ended September 30, 2008. These contracts terminated at December 31, 2008. GSWC began receiving power under the new purchased power contract in January 1, 2009. In May 2009, the CPUC issued a final decision approving the contract and authorizing the memorandum account to track unrealized gains and losses. Accordingly, a cumulative unrealized loss of $7.0 million as of September 30, 2009 has been included in the memorandum account and did not impact GSWC s earnings.

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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 three months ended September 30, 2009 and 2008, other operation expenses by segment consisted of the following (amounts in thousands):

	3 Months Ended 9/30/2009	3 Months Ended 9/30/2008	$ CHANGE	% CHANGE
Water Services	$ 6,206	$ 5,656	$ 550	9.7%
Electric Services	549	580	(31)	-5.3%
Contracted Services	908	1,130	(222)	-19.6%
Total other operation expenses	$ 7,663	$ 7,366	$ 297	4.0%

For the three months ended September 30, 2009, other operation expenses for water services increased by 9.7% due primarily to: (i) higher chemical and water treatment costs, including supplies and materials, as a result of an increase in well production primarily at GSWC s Region II, and (ii) an increase of $239,000 in operation labor costs and other related miscellaneous employee benefits. These increases were partially offset by a decrease in equipment rental and postage costs of $139,000.

There was a decrease of $31,000 in other operation expenses for electric services due primarily to a decrease of $19,000 in bad debt expense. Other miscellaneous expenses decreased by $12,000.

Contracted services experienced decreases in other operation expenses of $222,000 mainly due to a decrease in outside services of $173,000, primarily related to PSUS and TUS. In addition, transition costs of $110,000 were incurred in the third quarter of 2008 due to the commencement of the operation of water and wastewater systems at military bases in North Carolina and South Carolina, which are non-recurring. This was partially offset by an increase in supplies and materials expense of $63,000.

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 three months ended September 30, 2009 and 2008, administrative and general expenses by segment, including AWR (parent), consisted of the following (amounts in thousands):

	3 Months Ended	3 Months Ended	$	%

	9/30/2009	9/30/2008	CHANGE	CHANGE
Water Services	$ 12,064	$ 11,771	$ 293	2.5%
Electric Services	2,061	1,674	387	23.1%
Contracted Services	2,883	2,850	33	1.2%
AWR (parent)	10	12	(2)	-16.7%
Total administrative and general expenses	$ 17,018	$ 16,307	$ 711	4.4%

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For the three months ended September 30, 2009, administrative and general expenses increased by $293,000 in water services compared to the three months ended September 30, 2008 due primarily to an increase of $812,000 in pension expenses resulting from a reduction in the fair value of plan assets in 2008 caused by market conditions at the time. There was also an increase in labor costs and other employee benefits of $173,000 due to higher wages largely related to Registrant s annual performance-based salary review program. These increases were partially offset by $585,000 of additional compensation expense incurred in 2008 relating to the resignation of a GSWC officer effective September 26, 2008 in connection with a Resignation Agreement and General Release of Claims. This expense did not recur in 2009. In addition, outside services and other miscellaneous expenses decreased by $107,000. However, outside legal costs at GSWC may increase in the fourth quarter of 2009 and into 2010 as a result of ongoing legal proceedings.

For the three months ended September 30, 2009, administrative and general expenses increased by $387,000 in electric services compared to the three months ended September 30, 2009 primarily due to higher rate case costs of $241,000 associated with the current rate case. There was also a $73,000 increase in wages and related benefits, a $62,000 increase in allocation of costs from corporate headquarters to BVES, and $11,000 in other miscellaneous expenses.

For the three months ended September 30, 2009 administrative and general expenses increased by $33,000 for contracted services compared to the three months ended September 30, 2008 due primarily to: (i) an increase in labor costs and other benefits of $249,000 due to higher wages and an increase in the number of employees and, (ii) an increase of $68,000 in pension expense. These increases were partially offset by decreases in outside services and legal costs of $286,000.

Depreciation and Amortization

For the three months ended September 30, 2009 and 2008, depreciation and amortization by segment consisted of the following (amounts in thousands):

	3 Months Ended 9/30/2009	3 Months Ended 9/30/2008	$ CHANGE	% CHANGE
Water Services	$ 7,661	$ 7,161	$ 500	7.0%
Electric Services	565	552	13	2.4%
Contracted Services	174	169	5	3.0%
Total depreciation and amortization	$ 8,400	$ 7,882	$ 518	6.6%

For the three months ended September 30, 2009, depreciation and amortization expense for water and electric services increased by $513,000 to $8.2 million compared to $7.7 million for the three months ended September 30, 2008 reflecting, among other things, approximately $73.6 million of additions to utility plant during 2008, depreciation on which began in January 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 appropriate regulatory agency will be recovered through water and electric rates.

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Maintenance

For the three months ended September 30, 2009 and 2008, maintenance expense by segment consisted of the following (amounts in thousands):

	3 Months Ended 9/30/2009	3 Months Ended 9/30/2008	$ CHANGE	% CHANGE
Water Services	$ 3,214	$ 3,096	$ 118	3.8%
Electric Services	249	261	(12)	-4.6%
Contracted Services	589	670	(81)	-12.1%
Total maintenance	$ 4,052	$ 4,027	$ 25	0.6%

For the three months ended September 30, 2009, maintenance expense for water and electric services increased by $106,000 to $3.5 million compared to $3.4 million for the three months ended September 30, 2008 due principally to an increase of $91,000 in maintenance expense at CCWC. In addition, GSWC s maintenance expense at its three water regions increased slightly by $27,000 during the three months ended September 30, 2009 compared to the same period in 2008.

There was a decrease of $81,000 in contracted services maintenance expense. Maintenance expense at ONUS decreased by $166,000 during the three months ended September 30, 2009 as compared to the same period in 2008. This decrease was partially offset by an increase of $85,000 in maintenance expense at other military base operations.

Property and Other Taxes

For the three months ended September 30, 2009 and 2008, property and other taxes by segment consisted of the following (amounts in thousands):

	3 Months Ended 9/30/2009	3 Months Ended 9/30/2008	$ CHANGE	% CHANGE
Water Services	$ 3,011	$ 2,635	$ 376	14.3%
Electric Services	179	183	(4)	-2.2%
Contracted Services	365	643	(278)	-43.2%
Total property and other taxes	$ 3,555	$ 3,461	$ 94	2.7%

For the three months ended September 30, 2009, property and other taxes for water and electric services increased by $372,000 resulting from increased assessed property values, higher payroll taxes based on increased labor costs and higher franchise fees based on increased sales volume.

Property and other taxes were lower in contracted services due to lower gross receipts taxes of $286,000 at ODUS. In the third quarter of 2008, such taxes were determined to be owed and amounts related to activity going back to contract inception, making up the majority of this difference, were recorded. This was partially offset by an increase in payroll taxes of $12,000 due to higher labor costs.

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ASUS Construction Expenses

For the three months ended September 30, 2009, ASUS construction expenses were $9.3 million, increasing $4.2 million compared to the same period in 2008 due primarily to new construction projects at FBWS and ODUS, which had increases of $1.5 million and $3.4 million, respectively, over the same period in 2008. These increases were partially offset by a $792,000 decrease in construction expense at other military bases. For the three months ended September 30, 2008, PSUS incurred expenses of $411,000 for emergency construction and anticipated losses associated with certain construction projects at Fort Jackson. Such costs did not recur in the three months ended September 30, 2009.

Loss on Settlement for Removal of Wells

Despite its previous rulings, on October 8, 2009, the ACC ordered CCWC to treat the entire gain of $1,520,000 from a settlement agreement with the Fountain Hills Sanitary District (FHSD) as a reduction to rate base. In 2005, in an agreement with the FHSD, CCWC agreed to permanently cease using one of its wells in order for FHSD to secure an Aquifer Protection Permit for its recharge system. Based on previous decisions ruled by the ACC on similar gains, CCWC recognized a net gain of $760,000 (50% of the proceeds) in 2005 related to the settlement agreement and established a regulatory liability for the remaining $760,000 pending the ACC s review of this matter. However, the decision issued on October 8, 2009 ordered CCWC to treat the entire settlement proceeds of $1,520,000 as a reduction to rate base. As a result, CCWC recognized a loss of $760,000 during the third quarter of 2009. This effectively reverses the original gain recorded in 2005.

Interest Expense

For the three months ended September 30, 2009 and 2008, interest expense by segment, including AWR (parent) consisted of the following (amounts in thousands):

	3 Months Ended 9/30/2009	3 Months Ended 9/30/2008	$ CHANGE	% CHANGE
Water and Electric Services	$ 5,795	$ 5,116	$ 679	13.3%
Contracted Services	89	205	(116)	-56.6%
AWR (parent)	(23)	107	(130)	-121.5%
Total interest expense	$ 5,861	$ 5,428	$ 433	8.0%

Overall, interest expense increased in 2009 reflecting an increase in long-term debt, partially offset by lower interest rates and a decrease in 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, a decision issued in July 2009 in the GSWC cost of capital proceeding authorized an interest rate balancing account to track interest costs of new debt issued after January 1, 2009. This balancing account tracks any difference between the incremental cost of debt included in the cost of capital adopted 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 $159,000 for the three months ended September 30, 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 three months ended September 30, 2009 were approximately $12.9 million, as compared to an average of $61.3 million during the same period of 2008. The average interest rate on short-term borrowings for the three months ended September 30, 2009 was 0.9% as compared to an average of 3.2% during the same period of 2008.

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Interest Income

For the three months ended September 30, 2009 and 2008, interest income by segment, including AWR (parent) consisted of the following (amounts in thousands):

	3 Months Ended 9/30/2009	3 Months Ended 9/30/2008	$ CHANGE	% CHANGE
Water and Electric Services	$ 170	$ 286	$ (116)	-40.6%
Contracted Services	3	1	2	200.0%
AWR (parent)		6	(6)	-100.0%
Total interest income	$ 173	$ 293	$ (120)	-41.0%

Interest income decreased by $120,000 for the three months ended September 30, 2009 primarily due to the lower interest rates earned on the uncollected balance of the Aerojet litigation memorandum account.

Other

For the three months ended September 30, 2009 and 2008, Registrant recorded other income of $38,000 and a loss of $30,000, respectively, as a result of Registrant s equity interest in an investment.

Income Tax Expense

For the three months September 30, 2009 and 2008, income tax expense by segment, including AWR (parent), consisted of the following (amounts in thousands):

	3 Months Ended 9/30/2009	3 Months Ended 9/30/2008	$ CHANGE	% CHANGE
Water and Electric Services	$ 6,202	$ 4,110	$ 2,092	50.9%
Contracted Services	881			