

November 1, 2018



# California Water Service Group Announces Earnings for the Third Quarter 2018

SAN JOSE, Calif., Nov. 01, 2018 (GLOBE NEWSWIRE) -- California Water Service Group (NYSE: CWT) today announced net income of \$34.4 million or \$0.72 earnings per diluted common share for the third quarter of 2018, compared to net income of \$33.8 million or \$0.70 earnings per diluted common share for the third quarter of 2017.

The \$0.6 million increase in net income was driven primarily by aggregate rate increases of \$4.4 million, reflecting general rate increases net of California's cost of capital decision. Other factors increasing net income included a \$1.1 million reduction in write-offs of unrecoverable capital costs and an increase in tax benefits of \$0.9 million. The increases to net income were partially offset by a \$1.8 million increase in depreciation and amortization, employee wage increases of \$1.5 million, a \$1.3 million increase in new business expenses, and a \$1.7 million increase in interest expense.

"Our results for the third quarter were in line with expectations," said President and Chief Executive Officer Martin A. Kropelnicki.

"During the quarter, we had the Mendocino Complex wildfire, the largest in California history, threatening one of our service areas. We activated our emergency operations center for two weeks, staffed around the clock, to provide resources to firefighters and help protect our customers' property. I'm so proud of our dedicated employees who kept the water flowing while dealing with the risk to themselves and their families from the fire," he said.

"Finally, I am pleased that we continued our efforts in the quarter to complete capital programs to bring clean, reliable water service to customers. We now anticipate our capital investment for the year will be in the range of \$240 to \$260 million. Towards that goal, we successfully raised \$300 million in first mortgage bonds in the quarter to refinance our California Water Service Company (Cal Water) line of credit. The refinancing supports planned improvements to transmission and distribution pipelines, which are necessary to upgrade aging water systems, to enable the delivery of safe, reliable, and high-quality water supply for both our customers' everyday needs and for emergency use by firefighters and other first responders," said President and Chief Executive Officer Martin A. Kropelnicki.

## Additional Financial Results for the Third Quarter of 2018

Total revenue increased 3.4% to \$219.0 million in the third quarter of 2018 compared to \$211.7 million in the third quarter of 2017. The increase was mostly due to aggregate rate increases of \$4.4 million, reflecting general rate increases net of the reduction for California's cost of capital decision. In addition, balancing account adjustments added \$1.5 million and deferred revenue adjustments added \$1.5 million.

Total operating expenses increased \$4.1 million, or 2.5%, to \$173.4 million in the third quarter of 2018 compared to \$169.3 million in the third quarter of 2017.

Water production expenses increased \$3.5 million, or 4.7%, to \$78.8 million in the third quarter of 2018 compared to \$75.3 million in the third quarter of 2017, primarily due to increases in purchased water quantities and higher wholesale water rates. The California revenue decoupling mechanisms record an increase to revenue equal to the increase in California water production costs.

Administrative and general and other operations expenses increased \$4.4 million to \$48.4 million in the third quarter of 2018, primarily due to increases in employee wage and benefit costs and uninsured losses associated with operations. Changes in employee pension benefits and employee and retiree medical costs for regulated California operations generally do not affect earnings, as the Company is allowed by the California Public Utilities Commission (CPUC) to record these costs in balancing accounts for future recovery, creating a corresponding change to revenue.

Maintenance expenses increased \$0.7 million, or 11.7%, to \$6.8 million in the third quarter of 2018, due to increased costs for repairs of transmission and distribution mains and services.

Income taxes decreased \$6.9 million primarily due to a decrease in the corporate federal income tax rate from 35 percent to 21 percent, effective January 1, 2018, an increase in tax benefits of \$0.9 million, and a decrease in pre-tax income. The Company estimates its combined effective income tax rate for 2018 in the range of 22 to 25 percent.

Depreciation and amortization expenses increased \$1.8 million, to \$21.0 million, in the third quarter of 2018, as compared to \$19.2 million in the third quarter of 2017, due to a record increase in utility plant investment in 2017.

Net other loss, net of income tax benefits, increased \$0.8 million in 2018, primarily due to \$1.3 million of expenses associated with new business acquisition efforts.

#### Year-to-Date Results

For the nine-month period ended September 30, 2018, net income was \$44.9 million or \$0.93 earnings per diluted common share, compared to net income of \$53.5 million or \$1.11 earnings per diluted common share for the nine-month period ended September 30, 2017.

The \$8.6 million decrease in net income was primarily the result of \$5.1 million increase in expenses associated with new business development, increase of \$5.0 million in depreciation and amortization, employee wage increases of \$4.0 million, and an increase of \$3.5 million in interest expense. In addition, there were other changes driven primarily by factors outside our immediate control that decreased net income, including a \$2.7 million reduction in unbilled revenue accrual and a net \$0.5 million decrease in the valuation of our benefit plan investments due to changes in market valuation offset by life insurance proceeds. These decreases to net income were partially offset by aggregate rate increases of \$10.8 million, reflecting general rate increases net of California's cost of capital decision.

#### Water System Improvements

During the first nine months of 2018, the total company-funded and developer-funded capital investment was \$212.9 million, an increase of \$32.5 million, or 18.0%, compared to \$180.4 million in the first nine months of 2017. The increase was primarily due to Cal Water projects constructed to treat 35 wells to remove 1,2,3 trichloropropane (TCP).

#### California Revenue Decoupling Mechanisms

The under-collected net receivable balance in the Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) was \$60.0 million as of September

30, 2018, a decrease of 13.2%, or \$9.1 million, from the balance of \$69.1 million as of December 31, 2017. Cal Water used its CPUC-authorized Sales Reconciliation Mechanism (SRM) to adjust its adopted sales forecast for 2018.

#### Other Information

All stockholders and interested investors are invited to listen to the third quarter 2018 conference call, which will be held today at 11:00 a.m. ET, by dialing 1-833-832-5130 or 1-509-844-0151 and keying in ID# 9442499. A replay of the call will be available from 2:00 p.m. ET on Thursday, November 1, 2018 through January 1, 2019, at 1-855-859-2056 or 1-404-537-3406, ID# 9442499. The replay will also be available under the investor relations tab at [www.calwatergroup.com](http://www.calwatergroup.com). The call will be hosted by President and Chief Executive Officer Martin A. Kropelnicki and Vice President and Chief Financial Officer Thomas F. Smegal. Prior to the call, the Company will post a slide presentation on its website. The presentation can be found at [www.calwatergroup.com/docs/2018q3slides.pdf](http://www.calwatergroup.com/docs/2018q3slides.pdf) after 6:00 a.m. PDT.

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

***This news release contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 ("Act"). The forward-looking statements are intended to qualify under provisions of the federal securities laws for "safe harbor" treatment established by the Act. Forward-looking statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the Company, the water utility industry and general economic conditions. Such words as would, expects, intends, plans, believes, estimates, assumes, anticipates, projects, predicts, forecasts or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are subject to uncertainty and changes in circumstances. Actual results may vary materially from what is contained in a forward-looking statement. Factors that may cause a result different than expected or anticipated include, but are not limited to: governmental and regulatory commissions' decisions; consequences of eminent domain actions relating to our water systems; changes in regulatory commissions' policies and procedures; the timeliness of regulatory commissions' actions concerning rate relief; inability to renew leases to operate city water systems on beneficial terms; changes in California State Water Resources Control Board water quality standards; changes in environmental compliance and water quality requirements; electric power interruptions; changes in customer water use patterns and the effects of conservation; the impact of weather and climate on water availability, water sales and operating results; the unknown impact of contagious diseases on the Company's operations; civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type; labor relations matters as we negotiate with the unions; restrictive covenants in or changes to the credit ratings on our current or future debt that could increase our financing costs or affect our ability to borrow, make payments on debt or pay dividends; and, other risks and unforeseen events. When considering forward-looking***

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

**CALIFORNIA WATER SERVICE GROUP  
CONDENSED CONSOLIDATED BALANCE SHEETS**

Unaudited

(In thousands, except per share data)

	<b>September 30, 2018</b>	<b>December 31 2017</b>
<b>ASSETS</b>		
<b>Utility plant:</b>		
Utility plant	\$ 3,169,726	\$ 2,970,179
Less accumulated depreciation and amortization	(983,984 )	(922,214 )
Net utility plant	<u>2,185,742</u>	<u>2,047,965</u>
<b>Current assets:</b>		
Cash and cash equivalents	66,421	94,776
Receivables:		
Customers	50,785	32,451
Regulatory balancing accounts	37,973	36,783
Other	20,903	16,464
Unbilled revenue	40,318	29,756
Materials and supplies at weighted average cost	6,563	6,463
Taxes, prepaid expenses, and other assets	12,576	11,180
Total current assets	<u>235,539</u>	<u>227,873</u>
<b>Other assets:</b>		
Regulatory assets	388,300	401,147
Goodwill	2,615	2,615
Other assets	64,666	60,775
Total other assets	<u>455,581</u>	<u>464,537</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,876,862</u></u>	<u><u>\$ 2,740,375</u></u>

**CAPITALIZATION AND LIABILITIES**

**Capitalization:**

Common stock, \$.01 par value; 68,000 shares authorized, 48,068 and 48,012 outstanding in 2018 and 2017, respectively

Additional paid-in capital

Retained earnings

Total common stockholders' equity

Long-term debt, less current maturities

Total capitalization

\$	481	\$	480
	336,960		336,229
	374,593		356,753
	<u>712,034</u>		<u>693,462</u>
	714,310		515,793
	<u>1,426,344</u>		<u>1,209,255</u>

**Current liabilities:**

Current maturities of long-term debt

Short-term borrowings

Accounts payable

Regulatory balancing accounts

104,812	15,920
75,100	275,100
102,938	93,955
43,300	59,303

Accrued interest	13,111	6,122
Accrued expenses and other liabilities	42,629	40,559
Total current liabilities	381,890	490,959
<b>Unamortized investment tax credits</b>	1,724	1,724
<b>Deferred income taxes</b>	199,143	192,946
<b>Pension and postretirement benefits other than pensions</b>	235,501	252,141
<b>Regulatory liabilities and Other</b>	255,569	224,127
<b>Advances for construction</b>	186,897	182,502
<b>Contributions in aid of construction</b>	189,794	186,721
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 2,876,862</b>	<b>\$ 2,740,375</b>

**CALIFORNIA WATER SERVICE GROUP**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

Unaudited

(In thousands, except per share data)

**For the Three Months ended:**

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
<b>Operating revenue</b>	\$ 218,983	\$ 211,731
<b>Operating expenses:</b>		
Operations:		
Water production costs	78,818	75,261
Administrative and general	26,493	22,749
Other operations	21,943	21,208
Maintenance	6,768	6,057
Depreciation and amortization	21,009	19,231
Income taxes	11,262	18,219
Property and other taxes	7,142	6,544
Total operating expenses	173,435	169,269
Net operating income	45,548	42,462
<b>Other income and expenses:</b>		
Non-regulated revenue	4,703	3,542
Non-regulated expenses	(4,897 )	(2,576 )
Other components of net periodic benefit cost	(1,975 )	(2,137 )
Allowance for equity funds used during construction	1,023	1,105
Income tax benefit on other income and expenses	305	30
Net other loss	(841 )	(36 )
<b>Interest expense:</b>		
Interest expense	10,875	9,284
Allowance for borrowed funds used during construction	(560 )	(707 )
Net interest expense	10,315	8,577

<b>Net income</b>	\$	34,392	\$	33,849
<b>Earnings per share</b>				
Basic	\$	0.72	\$	0.70
Diluted	\$	0.72	\$	0.70
<b>Weighted average shares outstanding</b>				
Basic		48,070		48,017
Diluted		48,070		48,017
<b>Dividends declared per share of common stock</b>	\$	0.1875	\$	0.1800

**For the Nine Months ended:**

		<b>September 30, 2018</b>		<b>September 30, 2017</b>
<b>Operating revenue</b>	\$	523,862	\$	504,899
<b>Operating expenses:</b>				
Operations:				
Water production costs		191,797		181,460
Administrative and general		77,195		66,908
Other operations		60,307		55,660
Maintenance		17,596		16,877
Depreciation and amortization		62,677		57,650
Income taxes		15,380		27,941
Property and other taxes		20,253		18,717
Total operating expenses		445,205		425,213
Net operating income		78,657		79,686
<b>Other income and expenses:</b>				
Non-regulated revenue		13,967		10,743
Non-regulated expenses		(16,449 )		(6,244 )
Other components of net periodic benefit cost		(6,984 )		(7,023 )
Allowance for equity funds used during construction		2,644		2,763
Income tax benefit (expense) on other income and expenses		1,882		(1,105 )
Net other loss		(4,940 )		(866 )
<b>Interest expense:</b>				
Interest expense		30,207		27,073
Allowance for borrowed funds used during construction		(1,359 )		(1,765 )
Net interest expense		28,848		25,308
<b>Net income</b>	\$	44,869	\$	53,512
<b>Earnings per share</b>				
Basic	\$	0.93	\$	1.11
Diluted	\$	0.93	\$	1.11
<b>Weighted average shares outstanding</b>				
Basic		48,058		48,007
Diluted		48,058		48,007
<b>Dividends declared per share of common stock</b>	\$	0.5625	\$	0.5400

---