

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

|  |   |                          |
|--|---|--------------------------|
| In the matter of the Application of GOLDEN       | ) |                          |
| STATE WATER COMPANY (U 133 W) for a              | ) | APPLICATION NO. 23-XX-__ |
| Certificate of Public Convenience and            | ) |                          |
| Necessity to establish a Non-Contiguous          | ) | Filed December 15, 2023  |
| Service Area to provide Public Utility Water and | ) |                          |
| Sewer Services in San Benito County and to       | ) |                          |
| Establish Rates for Service.                     | ) |                          |
| _____  | ) |                          |
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**APPLICATION OF GOLDEN STATE WATER COMPANY (U 133 W) FOR A  
CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO ESTABLISH  
A NON-CONTIGUOUS SERVICE AREA TO PROVIDE PUBLIC UTILITY  
WATER AND SEWER SERVICES IN SAN BENITO COUNTY AND  
TO ESTABLISH RATES FOR SERVICE**

GOLDEN STATE WATER COMPANY  
Jon Pierotti  
Vice President, Regulatory Affairs  
630 East Foothill Boulevard  
San Dimas, CA 91773-9016  
(909) 394-3600, Ext. 680

Joseph M. Karp  
Chris A. Kolosov  
Sheppard Mullin Richter & Hampton LLP  
Four Embarcadero Center  
Seventeenth Floor  
San Francisco, CA 94111  
Telephone: (415) 774-3118  
Facsimile: (415) 403-6078  
Email: jkarp@sheppardmullin.com  
Attorney for Golden State Water Company

December 15, 2023

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**Table of Contents**

|  |    |
|--|----|
| <b>1. Introduction</b> .....               | 1  |
| <b>2. Overview</b> .....                   | 3  |
| <b>3. Description of the Project</b> ..... | 5  |
| <b>4. Application Information</b> .....    | 8  |
| <b>5. CPCN Information</b> .....           | 12 |
| <b>6. Environmental Review</b> .....       | 34 |
| <b>7. Conclusion</b> .....                 | 38 |

|                  |  |
|------------------|--|
| <b>Exhibit A</b> | Site Plan  |
| <b>Exhibit B</b> | Golden State Water Company’s Restated Articles of Incorporation                                      |
| <b>Exhibit C</b> | Golden State Water Company’s Bylaws  |
| <b>Exhibit D</b> | Proposed Service Area Map  |
| <b>Exhibit E</b> | American States Water Company 10-K and Proxy Statement   |
| <b>Exhibit F</b> | Proposed San Juan Oaks Water Rates   |
| <b>Exhibit G</b> | Proposed San Juan Oaks Sewer Rates   |
| <b>Exhibit H</b> | Proposed San Juan Oaks Sewer Tariff Rules  |
| <b>Exhibit I</b> | Final Environmental Impact Report and Related Materials (submitted on archival DVD)                  |
| <b>Exhibit J</b> | Water Supply Questionnaire (submitted on archival DVD)   |
| <b>Exhibit K</b> | Draft Notice of Application  |
| <b>Exhibit L</b> | Ordinance No. 942 of the Board of Supervisors, County of San Benito, approving Development Agreement |

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**1. Introduction**

By this application (“Application”), Golden State Water Company (U 133 W) (“Golden State”) requests authority from the California Public Utilities Commission (“Commission”) for a Certificate of Public Convenience and Necessity (“CPCN”) to establish a non-contiguous service area, the San Juan Oaks Customer Service Area, to provide public utility water and sewer services in San Benito County to a new master-planned community known as the San Juan Oaks Specific Plan, and to establish rates for those services. Golden State files this Application pursuant to Sections 451 and

1001 of the California Public Utilities Code (“PU Code”)<sup>1</sup> and the applicable rules of the Commission’s Rules of Practice and Procedure (“Rules”). This Application is based upon and supported by the material facts, points and authorities, and all other information contained herein, the exhibits listed in the above table of contents and attached hereto, and the prepared testimony of Ernest A. Gisler and the prepared testimony of Jeffrey T. Linam (collectively, the “Prepared Testimony”).

In accordance with Rule 1.7(b), Golden State is not filing or tendering the Prepared Testimony to the Docket Office but is serving the Prepared Testimony on the Chief Administrative Law Judge concurrently with the filing of this Application, which Prepared Testimony includes a confidential version of Mr. Linam’s Prepared Testimony. Golden State is also serving the Prepared Testimony and this Application<sup>2</sup> on the potentially interested parties identified in the attached Certificate of Service. That service includes a public/redacted version of Mr. Linam’s Prepared Testimony, except that Golden State is serving the confidential version of Mr. Linam’s Prepared Testimony on the Public Advocates Office at the Commission (“Cal Advocates”). Anyone desiring a copy of the public/redacted version of the Prepared Testimony may obtain one by sending an electronic mail message to Audrey Jackson at [afjackson@gswater.com](mailto:afjackson@gswater.com).

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<sup>1</sup> Unless otherwise specified herein, all statutory references in this Application refer to the PU Code.

<sup>2</sup> Due to the size of the files, Exhibit I (the Final Environmental Impact Report and Related Materials) is not included in the served Application. Anyone desiring a copy of Exhibit I may obtain access to an electronic site from which the materials may be downloaded by emailing Audrey Jackson at [afjackson@gswater.com](mailto:afjackson@gswater.com).

## **2. Overview**

By this Application, Golden State seeks a CPCN from the Commission to provide public utility water and sewer services to new customers at the San Juan Oaks Specific Plan, a master-planned community in San Benito County currently under development that will include residences, parks, a community amenity center, open space areas, commercial space, a golf course with clubhouse, a resort hotel, agricultural preserves and associated infrastructure (the “Project”). The County of San Benito (“County”) Board of Supervisors approved the Project Specific Plan on November 3, 2015, and the developer/owner, San Juan Oaks Owner, LLC (the “Developer”), is currently undertaking the development and construction of the Project. Third Millennium Partners, Inc., a developer based in San Jose, and Oaktree Capital Management, an investment manager with \$183 billion of assets under management, own and control the Developer.

Water and sewer services for the service area are required as part of the Project. The County and the San Benito County Local Agency Formation Commission (“LAFCO”) have confirmed that the Project will not overlap an existing water service area, and there is no nearby water service provider willing to extend water service to the Project. Initially, San Juan Oaks Mutual Water Company (“SJO Mutual”), a mutual water company formed by the Developer, will provide the water and sewer services for the Project. Provided that Golden State obtains from the Commission the CPCN requested by this Application, following the Commission’s issuance of the CPCN, Golden State will replace SJO Mutual as the water and sewer service provider for the Project.

The Developer desires that Golden State provide the water and sewer services for the Project. Accordingly, on August 3, 2023, Golden State and the Developer

executed a Water Services Agreement (“WSA”), under which the Developer will sell and Golden State will pay for those water and sewer system assets already constructed and those to be constructed, as needed to serve the water, sewer and irrigation needs of the Project as development continues through completion. Those assets include water production, treatment, storage and distribution assets and sewage collection, pumping and conveyance assets. As of the date of this Application, the Developer has completed construction of all the assets required to serve Phase 1 of the Project, which comprise approximately 70% of total water assets and 55% of total sewer assets contemplated for the Project.<sup>3</sup> Pursuant to the WSA, among other items, approval and authorization from the Commission for the CPCN requested here is a condition precedent to closing. A copy of the WSA is included as a confidential attachment to the Prepared Testimony of Jeffrey T. Linam. As noted above, the Developer has formed SJO Mutual to provide water and sewer services to the Project until Golden State receives the CPCN requested by this Application. During that initial period, Golden State will provide certain administrative services to SJO Mutual pursuant to an Administrative Services Agreement entered into on August 3, 2023 (“ASA”). Upon the issuance of the CPCN to Golden State allowing Golden State to become the water and sewer services provider for the Project in accordance with the WSA, the ASA would terminate. If the Commission were not to issue a CPCN to Golden State for the Project, SJO Mutual would proceed to provide permanent services, and Golden State might continue to provide administrative support to SJO Mutual pursuant to the ASA.

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<sup>3</sup> The Developer will construct the assets for future Phases 2-5 of the Project over time; the parties expect that the full Project build out will be completed by approximately 2031.

The parties to the WSA agree that the water supplies to be used by Golden State to meet the water demands of the San Juan Oaks Customer Service Area will be derived from local groundwater produced from the San Juan Management Area of the North San Benito Basin. The San Benito County Water District Groundwater Sustainability Agency (“GSA”) manages the groundwater basin under the Sustainable Groundwater Management Act (Water Code §§ 10730 et seq.).

Pursuant to approvals received from the County and LAFCO, sewage collected from the Project will be collected and delivered to the City of Hollister’s Domestic Wastewater Recycling Facility (“DWRf”) for treatment. The City of Hollister and SJO Mutual entered into a Wastewater Treatment Agreement on June 20, 2023 (“WTA”), which allows SJO Mutual to deliver sewage to the DWRf for treatment by the City of Hollister at the standard sewer rates charged by the City to its commercial industrial customers with low strength wastewater. The WTA includes express authority for SJO Mutual to assign that agreement to Golden State upon the issuance of a CPCN. Accordingly, upon closing of the acquisition under the WSA, SJO Mutual would assign the WTA to Golden State, as part of the transfer of the sewer assets to Golden State. A copy of the WTA is included as an attachment to the Prepared Testimony of Ernest A. Gisler.

### **3. Description of the Project**

The official site plan for the Project is attached as **Exhibit A** to this Application. Pursuant to the development plan for the Project, the Developer has been causing and will continue to cause the construction of the Project in an orderly manner, on

approximately 1,993.6 acres located in San Benito County, California (three miles southwest of the City of Hollister and just west of the San Justo Reservoir). Much of the Project's backbone infrastructure (water, sewer, roads, signals, dry utilities, etc.) has been completed. Additionally, 279 Phase 1 Active Adult (55+) lots are finished and ready for vertical construction. The Project and associated water and sewer infrastructure development is occurring quickly, and water system start up is expected to occur within 30 days from the date of this filing. Sale of the Phase 1 lots to the home builder, Shea Homes, is expected to occur within the next 30 days. The existing San Juan Oaks Golf Course and clubhouse, which neighbor the Project and will be customers of SJO Mutual and, if the CPCN is issued, Golden State,<sup>4</sup> are currently being renovated and will be reopened in the first quarter of 2024.

There are currently no residents at the Project site. As summarized below, the Project consists of four major development components, plus the water service that would be provided to the San Juan Oaks Golf Course and clubhouse:

1. San Juan Oaks Senior/Active Adult community residential development: A single family residential development that includes 1,017 Active Adult (55+) residential homes, a community amenity center, private parks, and private open space areas. This development will be completed in four phases (approximately 250+/- homes per phase), with completion expected in 2031. As set forth above, the land development for the 279 Phase 1 lots has been completed, and the

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<sup>4</sup> The clubhouse renovation is not part of the Project. However, the clubhouse is located within the proposed Service Area and will be served by the water and sewer systems to be owned by SJO Mutual and then Golden State.



“finished” lots are under contract to a residential builder. Construction of model and production homes is scheduled to commence in late 2023 and early 2024, respectively.

2. Market rate homes bordering the existing San Juan Oaks Golf Course: A total of 67 non-age restricted homes are planned along the north and south sides of the existing golf course. Completion is projected for 2027.
3. Resort Hotel: A resort hotel associated with the existing golf course, which will include a 200-room-maximum hotel, a restaurant and limited commercial space, is planned for completion by approximately 2031.
4. Commercial Development: A 20-acre commercial development is planned for completion by approximately 2031 and will include up to 65,000 square feet of commercial space, potentially including a 106 unit-maximum assisted living development.
5. San Juan Oaks Golf Course and Clubhouse: As set forth above, the San Juan Oaks Golf Course and clubhouse are currently undergoing renovations and are scheduled to reopen in early 2024. The owner of the golf course and clubhouse, San Juan Oaks Golf Owner, LLC (“Golf Owner”) has requested water and sewer services from SJO Mutual and Golden State. The clubhouse will be provided with full water and sewer services. The golf course will be irrigated using a separate water system owned by Golf Owner, but Golf Owner has requested that the Project’s water system include an emergency connection that could supply water to the golf course system for irrigation purposes.

In sum, Golden State's current<sup>5</sup> financial model for the Project assumes 1,381 equivalent dwelling units ("EDUs") (1,017 EDUs for Active Adult (55+) residential homes, 67 EDUs for non-age restricted homes, 106 EDUs for commercial and assisted living development, 132 EDUs for the planned hotel, and 59 EDUs for the San Juan Oaks Golf Course clubhouse).

An additional critical component of the Project is the dedication of over 1,200 acres of the site into a permanent conservation easement, per an agreement with the California Department of Fish and Wildlife.

Concurrently with this Application, Golden State has been seeking permits from the appropriate agencies for both the drinking water system and the sewer system. Further information regarding the status of the Project is provided in the Prepared Testimony of Ernest A. Gisler.

#### **4. Applicant Information**

##### **4.1 Corporate Information**

Golden State, a corporation organized under the laws of the State of California on December 31, 1929, is a public utility providing water service in various areas in the counties of Contra Costa, Imperial, Lake, Los Angeles, Orange, Sacramento, San Bernardino, San Luis Obispo, Santa Barbara, and Ventura. Its principal place of business is located at 630 East Foothill Boulevard, San Dimas, California, 91773-9016. Golden State is a regulated subsidiary of American States Water Company. Originally

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<sup>5</sup> The financial model may evolve, contingent on changes to the Developer's or Golf Owner's plans.

named "Southern California Water Company," the company formally changed its name to "Golden State Water Company" on September 30, 2005. Golden State's Restated Articles of Incorporation, as most recently amended on September 16, 2005, are attached as **Exhibit B**. Golden State's Bylaws are attached as **Exhibit C**.

#### **4.2 Notices**

Correspondence and communications with respect to this Application should be addressed to:

Jon Pierotti  
Vice President, Regulatory Affairs  
Golden State Water Company  
630 East Foothill Boulevard  
San Dimas, California 91773-9016  
Telephone: (909) 394-3600  
Email: jon.pierotti@gswater.com

With copies to:

Joseph M. Karp  
Sheppard Mullin Richter & Hampton LLP  
Four Embarcadero Center  
Seventeenth Floor  
San Francisco, California 94111  
Telephone: (415) 774-3118  
Facsimile: (415) 403-6078  
Email: jkarp@sheppardmullin.com

#### **4.3 Categorization, Need for Hearings, Issues, and Schedule**

Golden State proposes that this Application be categorized as rate setting. At this time, Golden State is unable to predict whether this Application will be protested or whether there will be material factual disputed issues on which hearings should be held. The issues to be considered in this Application include (1) whether the Commission should grant the CPCN to Golden State to provide the proposed services pursuant to

PU Code Section 1001, and (2) whether the proposed rates are just and reasonable in compliance with PU Code Section 451. Golden State proposes the following schedules:

If no evidentiary hearings are required:

| <b>Event</b>  | <b>Proposed Date</b>                                |
|---|---|
| Application Filed   | December 15, 2023                                   |
| Protests Due  | 30 days after Application appears on daily calendar |
| Reply to Protests   | 10 days after Protests are due                      |
| Prehearing Conference (“PHC) and Public Participation Hearing (“PPH”), start if any | December 27, 2023                                   |
| PHC & PPH, finish if any  | February 28, 2024                                   |
| Cal Advocates serves Testimony  | March 21, 2024                                      |
| Other Parties serve Testimony   | March 21, 2024                                      |
| Golden State serves Rebuttal Testimony  | April 5, 2024                                       |
| Formal Settlement Negotiations (ADR), start   | April 9, 2024                                       |
| Formal Settlement Negotiations (ADR), end   | April 18, 2024                                      |
| Opening Briefs Filed and Served   | May 23, 2024  |
| Motion for Interim Rates and Status Conference                                      | May 23 2024   |
| Mandatory Status Conference   | May 24, 2024  |
| Reply Briefs Filed and Served   | June 7, 2024  |
| ALJ's Proposed Decision   | August 12, 2024                                     |
| Comments on Proposed Decision   | September 3, 2024                                   |
| Reply Comments  | September 10, 2024                                  |
| Commission Meeting On Final Decision  | September 26, 2024                                  |

If evidentiary hearings are required:

| <b>Event</b>                                   | <b>Proposed Date</b>                                |
|--|---|
| Application Filed                              | December 15, 2023                                   |
| Protests Due                                   | 30 days after Application appears on daily calendar |
| Reply to Protests                              | 10 days after Protests are due                      |
| PHC & PPH, start if any                        | December 27, 2023                                   |
| PHC & PPH, finish if any                       | February 28, 2024                                   |
| Cal Advocates serves Testimony                 | March 21, 2024                                      |
| Other Parties serve Testimony                  | March 21, 2024                                      |
| Golden State serves Rebuttal Testimony         | April 5, 2024                                       |
| Formal Settlement Negotiations (ADR), start    | April 9, 2024                                       |
| Formal Settlement Negotiations (ADR), end      | April 18, 2024                                      |
| Evidentiary Hearings start (if required)       | April 19, 2024                                      |
| Evidentiary Hearings end (if required)         | April 23, 2024                                      |
| Opening Briefs Filed and Served                | May 23, 2024  |
| Motion for Interim Rates and Status Conference | May 23, 2024  |
| Mandatory Status Conference                    | May 24, 2024  |
| Reply Briefs Filed and Served                  | June 7, 2024  |
| ALJ's Proposed Decision                        | August 12, 2024                                     |
| Comments on Proposed Decision                  | September 3, 2024                                   |
| Reply Comments                                 | September 10, 2024                                  |
| Commission Meeting On Final Decision           | September 26, 2024                                  |

There are no parties of record to serve with this Application because no service list has been established with the Commission. Therefore a certificate of service is not included with this filing. However, a copy of this Application has been served upon each entity named in the attached service list in lieu of a certificate of service, including water

service providers nearest to the proposed service area, LAFCO, the City of Hollister, and the County. Within 10 days of filing this Application, Golden State will cause to be published a notice of the general terms of this Application, in a newspaper of general circulation in the area proposed to be served. A draft notice is attached to this Application as **Exhibit K** and has been provided to the Commission's Public Advisor Office for approval.

## **5. CPCN Information**

### **5.1 Description of Proposed Service Area**

The Project is a 1,993.6-acre master-planned community located in unincorporated San Benito County. The site is located three miles southwest of the City of Hollister, approximately 3.5 miles southeast of the City of San Juan Bautista, and approximately 1.0 miles south of State Route 156. A majority of the Project site will be dedicated to open space, with the area to be developed comprising a minority of the total acreage. With respect to the proposed service area in this Application, Golden State would not compete with any other utilities, corporations, persons, or entities; therefore, the requirements of Rule 3.1 are not applicable.

The Project is located outside the service areas of existing local service providers. Both the City of Hollister and San Benito County Water District were approached about providing required services, and both declined to do so. The Project is located outside the limits of the City of Hollister, and the city would need to obtain authorization from LAFCO before it could provide extraterritorial water or sewer

services.<sup>6</sup> LAFCO has indicated to the City and the Developer that it likely would not grant such authorization.<sup>7</sup> San Benito County Water District is responsible for receiving and distributing water from the Central Valley Project within San Benito County. Its services are provided to agricultural growers for irrigation use and to urban water purveyors on a wholesale basis. The district does not provide retail water service to any customers (or any sewer service at all), and it has not stated any plans to start providing retail water or sewer services, to the Project or otherwise.

Therefore, the Developer and Golden State have agreed that Golden State will provide water and sewer services for the Project as a Commission regulated investor-owned utility, provided that the Commission approves the CPCN. As stated above, if the Commission were not to approve the CPCN for Golden State, then water and sewer services would be provided by SJO Mutual, the mutual water company formed by the Developer that will provide such services while this Application is pending.<sup>8</sup>

Notwithstanding that the City of Hollister and San Benito County Water District declined

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<sup>6</sup> Cal. Govt. Code § 56133.

<sup>7</sup> LAFCO did, however, approve treatment of the Project's wastewater at the City of Hollister's DWRP, as described above and further detailed in Section 5.4.2, below. (For the City to be the water/sewer provider for San Juan Oaks, the City would have been providing retail services outside the City limits. In contrast, the treatment of sewage that the City will be performing, on a wholesale-like basis, is inside its limits, using infrastructure it already has.)

<sup>8</sup> The WSA, ASA and WTA all contemplate that water and sewer services will transition from SJO Mutual to Golden State upon its receipt of the CPCN requested in this Application and reflect the preference of the Developer that Golden State provide services for the Project on a permanent basis. The arrangement for initial services by SJO Mutual was put in place solely due to concerns about the Commission's timing for issuing a decision in this proceeding and to have a contingency plan, in the event the Commission were to decline to approve the CPCN for Golden State.

to provide water and sewer services for the Project, Golden State is serving a copy of this Application on both entities, as a courtesy.

## **5.2 Service Area Map**

As stated above, the Project and proposed service area will be located in unincorporated San Benito County, just west of the San Justo Reservoir, three miles southwest of the City of Hollister, approximately 3.5 miles southeast of the City of San Juan Bautista, and approximately 1.0 miles south of State Route 156. The Project has an area of 1,993.6-acres, and the entire area of development has been designated as Subdivision Tract No. 330 by San Benito County. A proposed service area map is attached as **Exhibit D**. Additional maps are included as attachments to the Prepared Testimony of Ernest A. Gisler.

## **5.3 Need for Service and Public Utilities Code Section 1002(a) Factors**

In order for the Commission to issue a CPCN for a water or sewer system, PU Code Section 1001 requires that the Commission determine that the “present or future public convenience and necessity require or will require” the construction of the proposed system.<sup>9</sup> Part of this analysis hinges on whether the proposed service territory “interferes or is about to interfere with the operation of the line, plant, or system of any other public utility or of the water system of a public agency, already constructed.”<sup>10</sup> In this case, the Project is a new development and Golden State’s provision of water and sewer services will not interfere with the operations of any other

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<sup>9</sup> Cal. Pub. Util. Code § 1001(a).

<sup>10</sup> Cal. Pub. Util. Code § 1001(c).



public utility or public agency. To the contrary, the Developer entered into the WSA with Golden State for the provision of water and sewer services for the Project after local public agencies declined to provide such services for the Project.

Golden State is the second largest Class A water utility operating in California under the Commission's jurisdiction and has been providing water service to the public in California since 1929. Golden State has the technical and managerial expertise, financial resources, and economies of scale to serve the anticipated needs of the future residents of the Project, and the Commission has consistently demonstrated its confidence in Golden State's ability and extensive experience in providing water services in the State of California under the regulated jurisdiction of the Commission.

With respect to sewer service, a subsidiary of Golden State's parent company, American States Water Company, operates wastewater systems in Texas, Kansas, Maryland, Virginia, North Carolina, South Carolina, and Florida, and personnel of Golden State have obtained or are in the process of obtaining certifications in wastewater collection system maintenance from the California Water Environmental Association Technical Certification Program. Accordingly, Golden State also has the expertise needed to serve the future residents of the Project with regard to sewer services.

Lastly, as described below, Golden State's proposed rates for the San Juan Oaks Customer Service Area would be just and reasonable.

In light of the foregoing, the Commission should find the present or future public convenience and necessity will require the proposed water and sewer utility facilities

and service by Golden State for the Project and that authorizing such service would be in the public interest.

In addition to finding that, under PU Code Section 1001, the present or future public convenience and necessity require or will require the construction of a proposed water and sewer system, PU Code Section 1002(a) requires the Commission to consider certain factors in determining whether to grant a CPCN. Those factors are (1) community values, (2) recreational and park areas, (3) historical and aesthetic values, and (4) influence on environment.<sup>11</sup> As demonstrated below, granting the CPCN requested in this Application would be consistent with each of these factors.

### **5.3.1 Community Values**

Approval of the requested CPCN for the Project would be consistent with the values of the community that Golden State would serve. The San Juan Oaks Specific Plan is an approved master-planned community that neighbors an existing public golf course, which has been in operation for 25 years. The primary community to be served will be future residents of the Project, which has received all land use approvals from the County of San Benito. Lands surrounding the Project are open space or in agricultural production.

The term “community values” is not defined in Section 1002, and the Commission has previously found that “the concept of community values is somewhat fluid.”<sup>12</sup> However, in general, “[i]n assessing community values, the Commission

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<sup>11</sup> Cal. Pub. Util. Code § 1001(a).

<sup>12</sup> California Public Utilities Commission Decision 10-12-025, 8.

considers the views of the local community, including the positions of the elected representatives of the area who address a matter on behalf of their constituents.”<sup>13</sup> The Project has developed a ground-up infrastructure system based on all required approvals from the County, and an agreement with the City of Hollister for treatment of wastewater under the WTA. The County’s approval of the Project’s construction, the City of Hollister’s agreement to treat wastewater from the Project under the WTA (which is expressly assignable to Golden State), and LAFCO’s approval of such wastewater treatment at the City of Hollister’s DWRF all demonstrate that the Project has the support of local officials in the vicinity of the Project.

Further, the Development Agreement between the Developer and the County, attached to Ordinance No. 942 of the County’s Board of Supervisors, which is provided as **Exhibit L** to this Application, explicitly outlines the public benefits of implementation of the San Juan Oaks Specific Plan as follows.

- In addition to the regular impact fees, the Project will pay the County a “Community Benefit Fee” in the amount of \$6,059,000 at the first residential building permit. Per the Development Agreement, these funds “shall be used in County’s sole and absolute discretion as it deems appropriate for the benefit of the County, which may include: general community benefits, street improvements, affordable housing, public safety services, library services, and communications.”

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<sup>13</sup> Id.

- At no cost to the County, the Project will build and dedicate two “turn-key” parks for the benefit of all county residents. These parks include trails through an olive tree orchard, small and large dog parks, community garden plots, playgrounds, picnic/grill areas, an exercise station, a County history storyboard, restrooms, and dedicated parking.
- The Project will offer for dedication to the County a 2-acre parcel for a “Public Facility Safety Site” (*i.e.*, a potential future fire station). As part of the completed backbone infrastructure, the Developer already has stubbed utilities to the site where that station would be located.
- To ensure fiscal neutrality to the County, the property owner has voted to approve formation of a County Community Facilities District that will fund all public maintenance costs associated with County-related facilities.
- The Project will dedicate 1,200+ acres of the site into a permanent conservation easement and provide an endowment that will fund all maintenance and natural resource monitoring in perpetuity.
- The Project includes the installation of Class 2 bicycle paths and pedestrian routes along San Juan Oaks Drive, a public road. These improvements have been completed with the Project’s backbone infrastructure.
- The Project includes the installation of a new public traffic signal at the intersection of Union Road and San Juan Oaks Drive. This improvement has been completed, and the signal is operating.

- The Project will make a fair share contribution in the amount of \$39,609 to a public improvement at State Route 156 and Bixby Road.
- The Project will make a fair share contribution to a public improvement at Union Road and State Route 25.
- The Project has permanently secured an “Off-Site Agricultural Preserve” by placing a permanent easement on 153.5 acres of agricultural property in San Benito County. The easement was recorded for the benefit of the San Benito Agricultural Land Trust on October 15, 2014.
- The Project will place a permanent easement over 41.4-acres of “On-Site” Agricultural Preserve area.

In addition to the foregoing, the community support for the San Juan Oaks Specific Plan is demonstrated by the multiple Project approvals granted through its entitlement history. These approvals include:

**County of San Benito:**

- Vesting Tentative Map – Resolution No. 2004-85 – July 2004
- Parks & Recreation Commission Approval of County Park Designs – March 20, 2015
- Subsequent EIR Certification – Resolution No 2015-82 – November 3, 2015
- General Plan Amendment – Resolution No. 2015-84 – November 3, 2015
- Specific Plan Adoption – Resolution No. 2015-85 – November 3, 2015
- County Code, Zoning Text and Zoning Map Amendments – Ordinance No. 941 – November 3, 2015

- Development Agreement – Ordinance No. 942 – November 3, 2015
- Notice of Decision Granting Amended Tentative Map – TSM 13-86 – November 18, 2015
- Phase 1 Grading Plan Approval – Signed and Stamped – May 27, 2016
- Amended Development Agreement – Ordinance No. 981 – April 16, 2019
- Lot Line Adjustment – Recorded September 20, 2020
- County Consent to Assignment and Assumption of Development Agreement to San Juan Oaks Owner, LLC – August 30, 2021
- Annexation into County Community Facilities District No. 2018-01 – Resolution No. 2023-78 – June 27, 2023
- Phase 1 Final Map Recordation – July 6, 2023

**Other Agencies:**

- City of Hollister – Authorization of City Sewer Service – Resolution No. 2015-232 – December 21, 2015
- LAFCO – Authorization of City of Hollister Sewer Service – LAFCO Resolution No. 512 – January 28, 2016
- US Army Corps of Engineers – Section 404 Permit & USFWS Section 7 Consultation – No. 27710S – August 15, 2007
- Regional Water Quality Control Board – Section 401 Water Quality Certification – No. 33506WQ02 – May 23, 2007
- California Dept. of Fish and Game – Section 1602 Streambed Alteration Agreement – No. 1600-2016-085-R4 – December 19, 2016
  - Extension Approval Letter dated December 2, 2020

- California Dept. of Fish and Game – Incidental Take Permit (“ITP”) – No. 2081-2016-036-04 – May 9, 2016
  - First Amendment to ITP – May 20, 2019
- City of Hollister – Wastewater Treatment Agreement – Resolution No. 2023-133 – June 20, 2023

This foregoing evidence demonstrates both the benefits to the community provided by the Project and the community support for the Project. Therefore, the Commission should find that the community values factor weighs in favor of granting the requested CPCN in this Application.

### **5.3.2 Recreation and Park Areas**

Golden State analyzed the impacts to recreation and park areas and believes that such impacts would be minimal or mitigated through the mitigation measures adopted in the subsequent environmental impact report (“EIR”) certified in 2015 by the San Benito County Board of Supervisors for the Project. The Project includes construction of six on-site parks, collectively covering 6.7 acres, and an on-site area of 1,243.2 acres to be used as permanent wildfire habitat and open space.

At completion of the Project, there will be four private parks spread within the Active Adult community that include a variety of amenities, including tot-lots, turf areas, benches, picnic tables, sensory gardens, shade structures, canopy trees, ornamental landscaping, and a lawn amphitheater.

The many benefits that the Project will provide to the future residents of the Project include an approximately 10-acre Amenity Center site to serve the Active Adult community. The Amenity Center building will be approximately 15,000 square feet, with

interior space that includes a lobby, a fitness center, an aerobics/yoga room, an interior lap pool, locker rooms, co-working spaces, a craft room, a game room, a club room, and multiple flex/meeting rooms. The exterior space will be fully landscaped and include such amenities as a 360-degree bar and seating area, an exterior spa, bocce ball courts, pickle ball/tennis/flex courts, an event lawn, and multiple lush and quiet seating areas.

In addition to the above parks and recreation areas that will serve the Project's residents, the Developer will cause the construction and dedication to the County of two "turn-key" parks for the benefit of all County residents. These parks include trails through an olive tree orchard, small and large dog parks, community garden plots, playgrounds, picnic/grill areas, an exercise station, a County history storyboard, restrooms, and dedicated parking. All costs associated with the planning and construction of these two parks will be borne by the Developer.

In light of all of the foregoing, the Commission should find that the recreation and park areas factor weighs heavily in favor of granting the CPCN requested in this Application.

### **5.3.3 Historic and Aesthetic Values**

Golden State also analyzed the impacts to historic and aesthetic values and believes that such impacts would be minimal or would be mitigated through the mitigation measures adopted in the EIR for the Project. The EIR analyzed the impacts of the Project to historical cultural resources. The EIR for the Project included a Mitigation Monitoring and Reporting Program. Golden State intends to comply with the mitigation measures adopted in the EIR to the extent that they are applicable to its



provision of water and sewer services for the Project. Therefore, the Commission should find that the historic and aesthetic values factor weighs in favor of granting the CPCN requested in this Application.

#### **5.3.4 Influence on Environment**

Golden State believes that the water and sewer infrastructure components of the Project would have a minimal negative influence on the environment and to the extent that significant adverse impacts are anticipated to occur, the EIR sets forth sufficient mitigation measures. As an example, although no recycled water is currently available or anticipated, the Developer has and will install purple pipe for ease of transition if and when it becomes available.

Further, the Developer has complied with the mitigation measures adopted in the EIR to the extent that they are applicable. The County has hired a third-party consultant to review and confirm all Conditions of Approval and Mitigation Measures are being met throughout the construction process. That includes any mitigation measures that would apply to components of the water or sewer infrastructure. Overall, as discussed further below, the EIR analyzed the impact to the environment in great detail as required by the California Environmental Quality Act ("CEQA"). Therefore, the Commission should find that the influence on the environment factor weighs in favor of granting the CPCN requested in this Application.

## **5.4 Necessary Permits and Agency Authorizations**

### **5.4.1 Division of Drinking Water**

Golden State submitted the initial drinking water permit application to the State Water Resources Control Board, Division of Drinking Water (“DDW”) on October 31, 2022. Thereafter, on June 28, 2023, to reflect that the Project will be developed in stages, Golden State submitted a revision to reflect only Phase 1 of the Project. Golden State has held multiple discussions with local DDW staff regarding the work required to obtain the drinking water permit, including with the sanitary engineer assigned to the Project and with the district engineer. DDW’s engineering staff have toured the facilities twice. The water infrastructure for Phase 1 of the Project is currently constructed but not yet functional. As described below, DDW will issue the drinking water permit only after all Phase 1 water system infrastructure is functional, which will be prior to occupancy of the first housing unit and the reopening of the San Juan Oaks Golf Course and clubhouse.

As described in the Prepared Testimony of Ernest A. Gisler, there are two wells that will serve the Project. Technical consulting firm Todd Groundwater performed water quality monitoring on both wells when they were drilled in 2022. As soon as the wells are commissioned, the Developer will arrange for Todd Groundwater or another consultant to collect and analyze additional samples to confirm Title 22 compliance.

The drinking water permit application for the Project includes an Operations and Maintenance (“O&M”) plan, well logs, final design drawings, maps, Bacteriological Sample Siting Plan (“BSSP”), an Emergency Notification Plan (“ENP”), and other supporting documents. Before DDW will complete its final inspection to approve

construction, which is a prerequisite to its issuance of the drinking water permit, facilities (wells, tanks, pipelines, etc.) must have been commissioned and be functional; water quality testing needs to be completed; and dedicated coliform sampling sites, meters, and backflow prevention assemblies need to be installed. DDW has made an initial inspection and will conduct follow-up inspections during commissioning of the wells and the treatment plant.

Golden State is currently preparing the technical, managerial, and financial assessment and operations plan for the Project, as required by DDW. Various other plans are also being prepared as part of the permitting process. These plans include an O&M Plan, BSSP, Disinfection By-Products Plan, and ENP.

#### **5.4.2 Wastewater Permitting**

As explained above, sewage generated by the Project will be treated at the City of Hollister's DWRf pursuant to the WTA. Golden State will collect sewage within its proposed service area and deliver it to the DWRf for treatment. Jurisdictional approvals for the treatment include:

- San Benito County LAFCO, January 22, 2015: LAFCO approved the resolution “Implementing Hollister Urban Service Area with Respect to Extending City Sewer Services.” This established the process and authority for the City of Hollister to provide wastewater service outside its boundaries, with LAFCO approval.
- City of Hollister, December 21, 2015: The City of Hollister approved Resolution No. 2015-232 authorizing the City to provide wastewater treatment for the benefit of areas outside its city limits and sphere of influence, including the Project.

- San Benito County LAFCO, February 25, 2016: LAFCO approved LAFCO No. 512 – City of Hollister Out-of-Agency Services (Del Webb at San Juan Oaks).
- San Benito County LAFCO, February 29, 2016: Notice of Determination filed by LAFCO for its February 25, 2016 findings associated with approval of sewer service to LAFCO No. 512 – City of Hollister Out-of-Agency Services (Del Webb at San Juan Oaks).
- City of Hollister, October 10, 2019: Wastewater “Will-Serve” letter from City of Hollister issued for the Project.
- City of Hollister, June 20, 2023: City of Hollister approves Resolution No. 2023-133 adopting the WTA.

Additionally, prior to first occupancy of the Project or reopening of the San Juan Oaks Golf Course clubhouse, SJO Mutual will enroll the sewer collection system with the State Water Resources Control Board under the Statewide Sanitary Sewer Systems General Order 2022-0103-DWQ. Prior to taking ownership of the sewer system following issuance of a CPCN by the Commission, Golden State will also enroll under that general order.

Golden State Water has worked with the Developer and the Central Coast Regional Water Quality Control Board (“Regional Board”) to ensure that all necessary permits for the sewer system are obtained. Because the sewer system for the Project is only a collection system and does not include treatment or disposal of wastewater, Golden State will not need to obtain waste discharge requirements. The Regional Board does require that the sewer system enroll in the state’s Sanitary Sewer

Overflow (“SSO”) program. The SSO forms, system map and Sewer System Management Plan have been provided to the Regional Board.

#### **5.4.3 Potable Water System Discharge Permitting**

The Statewide National Pollutant Discharge Elimination System (“NPDES”) permit for drinking water system discharges to waters of the United States will be obtained when all underground infrastructure is installed. Golden State will make the required filing at the appropriate time.

#### **5.4.4 Air Permitting**

The air permitting process commences when any generators are identified, and the specifications are available. Golden State will seek the required permits at the appropriate time.

### **5.5 Customer and Water Supply Information**

#### **5.5.1 Water**

The Project is a new master-planned development on approximately 1,995 acres, located in unincorporated San Benito County, southwest of the City of Hollister and about one mile south of State Route 156. The Project abuts the existing San Juan Oaks Golf Course, and the new water system will provide water service to the golf course clubhouse. Two wells that historically supplied the clubhouse will continue to supply the golf course irrigation system. Those wells are not part of the public water system to be acquired, owned, and operated by Golden State pursuant to this Application.

The water system is comprised of all new construction to meet the demands of land uses within the Project, including two groundwater wells, an arsenic removal

treatment system, a network of 8-inch and 12-inch water mains, and two storage tanks feeding one pressure zone. The storage tanks have an operating level (hydraulic grade line) of 480 feet, and the service area ground elevation ranges between 220 and 375 feet.

The water storage and distribution system has been designed and has been or will be constructed to meet all health and fire code requirements. Sizing of the facilities is based on peak demand of the system at build out. Treatment and supply facilities are equipped with backup power generators sufficient to maintain operation in the event of a power failure. Treatment requirements are established in coordination with DDW. Further information regarding the water distribution infrastructure is found in the Prepared Testimony of Ernest A. Gisler.

### **5.5.2 Wastewater**

Wastewater from the Project will be treated at the City of Hollister's DWRF. The DWRF has a permitted capacity of 3.4 million gallons per day ("MGD") and may be expanded to treat up to 6.8 MGD. Current flow to the WWTP averages 2.6 MGD. The Project is located outside the city limits, but as discussed above, LAFCO has taken a series of actions that authorize the city to treat sewage collected from the Project, and the City of Hollister has approved and executed the WTA, which allows the facility to accept and treat sewage from the Project.

The Project will collect sanitary sewage through a gravity collection system that conveys flows to two pump stations. Sanitary Sewer Pump Station No. 1 ("SSPS 1") will serve Phase 1 of the Project, the non-age restricted home parcels, and the commercial parcels, and will receive the effluent from Sanitary Sewer Pump Station No. 2 ("SSPS

2”). Phases 2 through 4 of the Project will require the construction of SSPS 2. SSPS 1 will discharge flow through a pressure force main that is roughly 15,400 feet long and terminates just upstream of the DWRF. SSPS 2 will serve Phases 2-4.

The pump stations are pre-cast underground wet well structures with wet-pit rail mounted submersible pumps. The stations are duplex configuration, meaning there is one primary (lead) pump and one redundant pump located within each station’s wet well. The pump stations are sized to convey the Peak Wet Weather Flow with one pump out of service; consequently, only one pump at each station will operate at a given time. Similar to both stations, each pump has a dedicated discharge pipe (with a check and isolation valve), that connect together within a valve vault, which then forms a single force main to convey flow to the downstream discharge location. SSPS 1 is, and when constructed SSPS 2 will be, outfitted with a standby generator, electrical panel with automatic pump controls, a bypass pumper connection at the force main, and SCADA system for remote observation.

Further information regarding the anticipated wastewater infrastructure is found in the Prepared Testimony of Ernest A. Gisler.

### **5.5.3 Customers and Water Supply**

Golden State estimates that by the end of 2025, the first year of Golden State’s anticipated ownership of the system, 200 residential customers will require service, in addition to the San Juan Oaks Golf Course clubhouse, for a total of 259 EDUs, and that another 79 residential EDUs will be connected by the end of 2026. Golden State estimates that by the end of 2029, the fifth year of Golden State’s anticipated ownership of the system, that number will have increased to 989 EDUs.

Two wells (3 & 4) and an arsenic removal treatment plant will provide potable water to the Project. The production capacity of each well is 650 gpm. Each well can meet MDD alone, with the other well offline. Two storage tanks have been constructed on the hill above the Project area. The tanks hold approximately 500,000 gallons each and will provide the required fire flows as well as maintain pressure in the distribution system. Further information regarding the anticipated water supply is found in the Prepared Testimony of Ernest A. Gisler.

## **5.6 Operating Plan**

Golden State plans to operate the proposed water and sewer systems at the Project using the same care and methods it uses to provide water service in the other communities it serves. Golden State will ensure that the water production, storage, and distribution system will be operated and maintained to provide residents at the Project with a safe and reliable water supply that will meet all state and federal water quality standards.

Golden State intends to hire or contract with additional employees as needed, who will be dedicated to operating and maintaining both the potable water system and the sewer collection system. Employees based at San Juan Oaks will be supported by management from Golden State's Northern District, and from Customer Support Services (General Office) in San Dimas, California. Golden State will provide operation and maintenance services, engineering support, and 24-hour customer service support. The proposed water system will conform to the requirements set forth in General Order 103-A, as discussed further in the Prepared Testimony of Ernest A. Gisler.



## **5.7 Anticipated Costs**

The Prepared Testimony of Jeffrey T. Linam includes a statement detailing the estimated capital costs of the proposed water and sewer systems and the estimated annual operating and maintenance costs. The Developer is currently in the process of arranging for construction of the water and sewer systems. The systems are being built in multiple phases to correspond with the phases of the overall Project. As of the date of this Application, the Developer has completed the backbone and in-tract infrastructure that will serve 279 active adult lots for Phase 1 of the Project and the San Juan Oaks Golf Course clubhouse. The water and sewer systems are being built in five phases to correspond with the five phases of the overall Project.

The Developer's engineers, Whitson Engineers and Schaaf & Wheeler, prepared the capital costs for the Project. However, the capital costs for Phase 1 infrastructure have already been invoiced or are set forth in construction or supplier contracts. For the completed work, costs presented by Golden State with this Application are based on actual contracts, invoices, and receipts for work. The remaining infrastructure costs for Phase 1 are based on current contractual pricing. For future phases, (i) the capital costs for backbone infrastructure are based on estimates from Whitson Engineers and Schaaf & Wheeler, and (ii) the capital costs for in-tract facilities are based on the average cost per EDU that was incurred for Phase 1 of the Project. The expected Phase 1 capital cost of the water system is approximately \$12.2 million dollars. The anticipated Phase 1 capital cost of the sewer system is approximately \$5.9 million dollars. At Project completion in 2031, the cost of the water system is estimated to be approximately \$17.7 million dollars and the sewer system approximately \$10.6 million dollars.

Notwithstanding the foregoing estimates by the Developer's engineers, the pricing in the WSA represents the fair market value of the assets, as that pricing was determined through the negotiations of a willing and informed buyer and a willing and informed seller, with neither side compelled to enter into the transaction hastily or out of necessity. Pursuant to the WSA, Golden State will make incremental payments of the purchase price for water and sewer infrastructure as connections are established on a quarterly basis. The amounts of those payments are set forth in the unredacted version of the WSA included as an exhibit to the confidential version of the Prepared Testimony of Jeffrey T. Linam.

## **5.8 Financial Information**

The 10-K and Proxy Statement of Golden State's parent company American States Water Company is included as **Exhibit E** to this Application. The incremental payment for the assets is small compared to the size of Golden State and could easily be financed with operating cash flow. However, if long-term financing is required, Golden State currently has authorization to issue up to \$105 million in debt and equity securities. Specifically, by Decision 20-05-010 issued on May 13, 2020, the Commission approved Golden State's application to issue new debt and equity securities of \$465 million, and \$105 million of that authority has not yet been used. More information regarding this financial information is provided in the Prepared Testimony of Jeffrey T. Linam.

## **5.9 Proposed Rates**

For this Application, Golden State is proposing to have rate base reflect only the incremental payments as system infrastructure is constructed and assigned to Golden

State for use, less applicable depreciation. In Decision 14-06-051 for Golden State and Decision 21-08-007 for California Water Service Company,<sup>14</sup> the Commission has previously found an approach based on incremental payment for system infrastructure as customers move into a development to be both economically feasible and consistent with Commission policies.

Because the Project is a new development located in a new service area to be established for Golden State, there likely will be relatively few customers during the initial years after construction begins. Under traditional cost of service rate making, these initial customers would absorb and bear the burden of the fixed costs until more connections are added to the system, which could result in rates that place an unfair economic burden on the first customers. In an effort to alleviate some of this burden, Golden State proposes to calculate initial rates using the estimates from the fifth year of operations as a phase-in toward eventual normalized ratemaking. This methodology allows Golden State to rely on the higher number of estimated customers in the fifth year and results in water and sewer rates that are lower than they would be if relying on the number of customers who require service in earlier years. Using the fifth-year estimates to set the rates in Golden State's initial set of tariffs for the San Juan Oaks Customer Service Area results in more affordable water and sewer rates for initial customers from commencement of service until new rates are established in a GRC under the normal rate cycle. **Exhibit F** to this Application contains a tariff with Golden State's proposed water rates for the San Juan Oaks Customer Service Area. **Exhibit G** to this Application contains a tariff with Golden State's proposed sewer rates for the San

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<sup>14</sup> Decision 14-06-051 at 72-80; Decision 21-08-007 at 23-24 and Finding of Fact #21.

Juan Oaks Customer Service Area. **Exhibit H** to this Application contains a set of proposed sewer tariff rules.

Golden State's next GRC filing is scheduled to occur in July 2026. At that time, assuming a CPCN is approved, Golden State will have started operating the water and systems for the San Juan Oaks Customer Service Area and will be providing service to several hundred customers. Given this, if current schedules hold, Golden State expects to include a new proposal in its 2026 GRC filing for a test year beginning in 2028. In this Application, Golden State is not seeking any increases to current rates in any of its other customer service areas. Moreover, with the additional customer base achieved through the creation of a customer service area for the Project, Golden State will be able to spread shared costs, such as those for Customer Support Services (General Office) in San Dimas over a larger number of customers in future proceedings, thereby eventually reducing per-customer costs over time. Further information regarding Golden State's proposed rates for the proposed San Juan Oaks Customer Service Area is provided in the Prepared Testimony of Jeffrey T. Linam.

## **6. Environmental Review**

The California Environmental Quality Act ("CEQA") (Cal. Pub. Res. Code Sections 21000 et seq.) applies to discretionary projects to be carried out or approved by public agencies. Because the Commission must issue a discretionary decision regarding issuance of a CPCN, without which Golden State cannot proceed with the provision of water and sewer services, the Commission must act as either a lead

agency or a responsible agency under CEQA. The lead agency is the public agency with the greatest responsibility for supervising or approving the project as a whole.<sup>15</sup>

With respect to the Project, the County has acted as the lead agency for the Project, and the County identified the Commission as a responsible agency if water or sewer services are provided by an investor-owned utility regulated by the Commission.<sup>16</sup> The County indicated that such a utility's application for a CPCN with the Commission would include a Proponent's Environmental Assessment ("PEA"). However, Golden State is not submitting a PEA for the Project because the Commission has previously determined that a Final Environmental Impact Report ("FEIR") approved pursuant to CEQA may be submitted in lieu of a PEA under Rule. 2.4.<sup>17</sup> Golden State is submitting the FEIR prepared by the County as **Exhibit I** to this Application.

In determining that it is appropriate for the Commission to defer to a FEIR prepared by a lead agency, the Commission explained:

CEQA Guidelines Section 1516225 is clear that the underlying environmental review should remain undisturbed "unless the lead agency determines, on the basis of substantial evidence in the light of the whole record," that there exists:

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<sup>15</sup> California Environmental Quality Act Guidelines, Section 15051(b).

<sup>16</sup> Del Webb at San Juan Oaks Specific Plan Subsequent EIR, Section 4.14 Utilities and Service Systems, at p. 4.14-6.

<sup>17</sup> Decision 21-08-007 at Finding of Fact #7.

1. Substantial changes involving new significant environmental effects or a substantial increase in the severity of previously identified significant effects;
2. Substantial changes with respect to the circumstances under which the project is undertaken;" or
3. New information of substantial importance, which was not known and could not have been known with the exercise of reasonable diligence at the time the previous EIR was certified. <sup>18</sup>

In this case, there have been no such substantial changes or new information of substantial importance.

As set forth in the County Board of Supervisors' resolution certifying the Supplement Environmental Impact Report ("SEIR") on November 3, 2015, the County completed the SEIR, which comprised the Draft Subsequent EIR ("DSEIR") and the Final Subsequent EIR ("FSEIR") for the Project.<sup>19</sup> The description of the Project set forth in the SEIR remains consistent with the current plans for the Project, including with regard to the size and location of the Project site, the number of residential units (1,084) and the plans for a 200-room hotel and up to 65,000 square feet of commercial uses.<sup>20</sup> The SEIR also includes, at Appendix J, a Water Supply Assessment prepared pursuant

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<sup>18</sup> Id. at 13.

<sup>19</sup> Resolution No. 2015-82 of the Board of Supervisors of the County of San Benito (Nov, 3, 2015) at 3.

<sup>20</sup> Id. at 1-2.

to Water Code section 10910 to provide the necessary information and analysis to ensure that the Project has a sufficient water supply to meet existing and planned water demands over a 20-year projection.<sup>21</sup> The County filed its Notice of Determination in respect of the SEIR with the State with Clearinghouse Number 2013101006.

On February 13, 2023, the State Water Resources Control Board issued an addendum in respect of the SEIR. The addendum evaluated changes to the Project as reviewed by the County (“Original Project”) since the completion of the SEIR “to determine whether any new significant impacts, which were not previously identified in the EIR prepared for the Original Project, would result.”<sup>22</sup> The Addendum explains that those changes included: (1) consolidating the construction of two water tanks in one location rather than two locations, (2) not constructing an emergency interconnect on San Juan Oak Drive as it was determined no longer to be necessary, and (3) providing further clarification regarding the construction of a water treatment system.<sup>23</sup> The Addendum concluded that “none of the conditions requiring preparation of a subsequent EIR or negative declaration have occurred and that the changes that are part of the Original Project would not result in any significant impacts not considered under the original SEIR.”<sup>24</sup> In sum, the Addendum concludes:

[A] new or substantially greater significant impact would not result from the minor infrastructure modifications. In addition,

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<sup>21</sup> Id. at 3-4.

<sup>22</sup> San Juan Oaks Minor Infrastructure Amendments, CEQA Addendum (Feb. 13, 2023) (SCH 2013101006) at 3.

<sup>23</sup> Id. at 3.

<sup>24</sup> Id.

all of the mitigation measures included as part of the SEIR would continue to be implemented. Because all of the impacts would be within the envelope of impacts identified in the Certified SEIR, no additional environmental analysis, pursuant to Section 15162 of the CEQA Guidelines, is necessary.<sup>25</sup>

Given this very recent review of the Project for the purposes of CEQA and determination that there have been no substantial changes that would result in any significant impacts, Golden State respectfully requests that, for this Application, the Commission review the SEIR prepared by the County for its decision-making purposes under CEQA and conclude that the SEIR should remain undisturbed.

**7. Conclusion**

For the reasons stated above, Golden State respectfully requests that the Commission grant it the CPCN to provide water and sewer services to the proposed San Juan Oaks Customer Service Area and to establish rates for those services.

Respectfully submitted on December 15, 2023.

By /s/ JON PIEROTTI

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Jon Pierotti

Vice President, Regulatory Affairs

**GOLDEN STATE WATER COMPANY**

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<sup>25</sup> Id. at 4.



## VERIFICATION

With respect to the within Application, the undersigned certifies that he holds the position indicated below his name; that he is authorized to make this verification for and on behalf of said entity; that he has read the Application and knows the contents thereof; and that the same is true of his own knowledge and belief, except as to those matters which are thereon stated upon his information or belief, and as to those matters, he believes them to be true.

The undersigned declares under penalty of perjury that the foregoing is true and correct.

Executed on December 15, 2023, in the City of San Dimas, California.

By /s/ JON PIEROTTI

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Jon Pierotti

Vice President, Regulatory Affairs

**GOLDEN STATE WATER COMPANY**

**Exhibit 1**

**Site Plan**



| LOT SUMMARY                            |          |         |         |         |         |         |       |
|--|----------|---------|---------|---------|---------|---------|-------|
|  | LOT TYPE | PHASE 1 | PHASE 2 | PHASE 3 | PHASE 4 | PHASE 5 | TOTAL |
| ACTIVE ADULT                           | 60 x 100 | 85      | 71      | 84      | 62      | —       | 302   |
|  | 60 x 100 | 11      | 34      | 113     | 81      | —       | 439   |
|  | 60 x 100 | 80      | 83      | 78      | 87      | —       | 310   |
| SUB-TOTAL ACTIVE ADULT LOTS            |          | 276     | 268     | 275     | 230     | —       | 1050  |
| CONVENTIONAL SINGLE-FAMILY RESIDENTIAL | 60 x 100 | —       | —       | —       | 56      | 36      | 92    |
|  | 75 x 100 | —       | —       | —       | 5       | 1       | 6     |
|  | 60 x 100 | —       | —       | —       | —       | 8       | 8     |
| SUB-TOTAL CONVENTIONAL LOTS            |          | —       | —       | —       | 61      | 45      | 106   |
| TOTAL LOTS                             |          | 276     | 268     | 275     | 297     | 81      | 1157  |

LOTING EXHIBIT/PHASING PLAN  
**SAN JUAN OAKS**  
 SAN BENTO COUNTY, CALIFORNIA



OCT 13 2020  
 Project No. 1613-20



Civil Engineering  
 Land Surveying  
 Planning Services  
 Environmental Science



0137226 SURV

THIS AGREEMENT OF MERGER (this "Agreement") is made as of June 25, 1998 by and among SOUTHERN CALIFORNIA WATER COMPANY, a California corporation ("SCW"), SCW ACQUISITION CORP., a California corporation ("MergeCo"), and AMERICAN STATES WATER COMPANY, ("HoldingCo"), a California corporation, with reference to the following facts:

A. SCW has authorized capital consisting of (i) 30,000,000 shares of Common Stock, with par value of \$2.50 per share ("SCW Common Stock"), of which 8,957,671 shares have been issued and are outstanding; (ii) 83,200 shares of Preferred Stock (the "SCW Preferred Stock"), with par value of \$25.00 per share, of which 32,000 shares of the 4% Series have been issued and are outstanding, 32,000 shares of the 4¼% Series have been issued and are outstanding, and 19,200 of the 5% Series have been issued and are outstanding; and (iii) 150,000 shares of Preferred Stock, with a Par Value of \$100 per share, none of which have been issued.

B. MergeCo has authorized capital consisting of 1,000 shares of Common Stock, with no par value per share ("MergeCo Common Stock"), 100 shares of which have been issued and are outstanding and are beneficially owned of record by HoldingCo.

C. HoldingCo has authorized capital consisting of (i) 30,000,000 shares of Common Stock, no par value and a stated value of \$2.50 per share ("HoldingCo Common Stock"), of which 100 shares are issued and outstanding and beneficially owned of record by SCW, (ii) 83,200 shares of Preferred Stock (the "HoldingCo Preferred Stock"), with par value of \$25.00 per share, of which 32,000 shares are of the 4% Series, 32,000 shares are of the 4¼% Series, and 19,200 shares are of the 5% Series, and none of which shares have been issued or are outstanding; and (iii) 150,000 shares of New Preferred Stock, with no par value and a stated value of \$100 per share, none of which have been issued or are outstanding.

D. The Boards of Directors of the respective parties hereto deem it advisable to merge MergeCo with and into SCW in accordance with the California General Corporation Law (the "CGCL") and this Agreement for the purpose of establishing HoldingCo as the parent corporation of SCW in a transaction intended to qualify as a reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended.

NOW, THEREFORE, in consideration of the premises and agreements contained herein, the parties agree that (i) MergeCo shall be merged with and into SCW, (ii) SCW shall be the corporation surviving such merger, and (iii) the terms and conditions of such merger, the mode of carrying it into effect, and the manner of converting and exchanging shares of capital stock shall be as follows:

## ARTICLE 1

### THE MERGER

1.1 *The Merger.* Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the CGCL, MergeCo shall be merged (the "Merger") with and into SCW at the Effective Time (as defined below). Following the Merger, the separate corporate existence of MergeCo shall cease and SCW shall continue as the surviving corporation (SCW, as the surviving corporation, being sometimes referred to herein as the "Surviving Corporation"), and shall succeed to and assume all the rights and obligations of SCW and of MergeCo in accordance with the CGCL.

**FILED**  
In the office of the Secretary of State  
of the State of California

JUL 01 1998

*Bill Jones*  
BILL JONES, Secretary of State

1.2 *Closing.* The closing of the Merger shall take place at 10:00 a.m. on a date specified by the parties (the "Closing Date"), at the offices of O'Melveny & Myers LLP, 400 South Hope Street, Los Angeles, California 90071.

1.3 *Effective Time.* Subject to the provisions of this Agreement, on the Closing Date the parties shall file with the California Secretary of State (i) a copy of this Agreement of Merger, (ii) an officer's certificate for each of MergeCo and SCW, and (iii) a certificate of satisfaction of the California Franchise Tax Board for MergeCo, all as required by Section 1103 of the CGCL (such documents, the "Merger Documents"), and shall make all other filings or recordings required under the CGCL. The Merger shall become effective at 12:01 a.m., July 1, 1998 (such date and time being the "Effective Time").

1.4 *Effects of the Merger.* The Merger shall have the effects set forth in Section 1107 of the CGCL and all other effects specified in the applicable provisions of the CGCL.

## ARTICLE 2

### TERMS OF CONVERSION AND EXCHANGE OF SHARES

At the Effective Time:

2.1 *SCW Common Stock.* Each share of SCW Common Stock or fraction thereof issued and outstanding immediately prior to the Merger shall be automatically changed and converted into one share of HoldingCo Common Stock or fraction thereof, which shall thereupon be issued and fully-paid and non-assessable.

2.2 *SCW Preferred Stock.* Each share of each series of SCW Preferred Stock issued and outstanding immediately prior to the Merger shall be automatically changed and converted into the same number of shares of the same series of HoldingCo Preferred Stock, which shall thereupon be issued and fully-paid and non-assessable.

2.3 *MergeCo Shares.* The shares of MergeCo Common Stock issued and outstanding immediately prior to the Merger shall be automatically changed and converted into all of the issued and outstanding shares of Common Stock of the Surviving Corporation, which shall thereupon be issued and fully-paid and non-assessable, with the effect that the number of issued and outstanding shares of Common Stock of the Surviving Corporation shall be the same as the number of issued and outstanding shares of MergeCo Common Stock immediately prior to the Effective Time.

2.4 *HoldingCo Shares.* Each share of HoldingCo Common Stock owned or held by SCW immediately prior to the Merger shall be canceled.

## ARTICLE 3

### ARTICLES OF INCORPORATION AND BYLAWS

3.1 *Articles of Incorporation.* Upon the Effective Time and until amended or modified in accordance therewith or pursuant to applicable law, the articles of incorporation set forth as Appendix A hereto shall be the articles of incorporation of Surviving Corporation.

3.2 *Bylaws.* Upon the Effective Time and until amended or modified in accordance therewith pursuant to applicable law, the bylaws of SCW in effect on the effective time shall be the bylaws of Surviving Corporation.

#### ARTICLE 4

### DIRECTORS AND OFFICERS

4.1 *Directors and Officers.* The persons who are directors and officers of SCW immediately prior to the Merger shall continue as directors and officers, respectively, of the Surviving Corporation and shall continue to hold office as provided in the Bylaws of the Surviving Corporation. If, at or following the Effective Time, a vacancy shall exist in the Board of Directors or in the position of any officer of the Surviving Corporation, such vacancy may be filled in the manner provided in the Bylaws of the Surviving Corporation.

#### ARTICLE 5

### STOCK CERTIFICATES

5.1 *Pre-Merger SCW Common Share Certificates and SCW Preferred Shares Certificates.* Following the Effective Time, each holder of an outstanding certificate or certificates theretofore representing SCW Common Shares or SCW Preferred Shares, as the case may be, may, but shall not be required to, surrender the same to HoldingCo for cancellation or transfer, and thereupon each such holder or transferee will be entitled to receive a certificate or certificates representing the same number of shares of Holding Common Shares or series of HoldingCo Preferred Shares, as the case may be, as the SCW Common Shares or series of SCW Preferred Shares previously represented by the stock certificate(s) so surrendered.

5.2 *Outstanding Certificates.* Until surrendered or presented for transfer in accordance with Section 5.1 above, each outstanding stock certificate which, prior to the Effective Time, represented SCW Common Shares or a series of SCW Preferred Shares, as the case may be, shall be deemed and treated for all corporate purposes to represent the ownership of the same number of shares of HoldingCo Common Shares or series of HoldingCo Preferred Shares, as the case may be, as though such surrender or transfer and exchange and taken place.

5.3 *SCW Stock Transfer Books.* The stock transfer books for SCW Common Shares and each series of SCW Preferred Shares shall be deemed to be closed at the Effective Time such that no transfer of SCW Common Shares or any series of SCW Preferred Shares shall thereafter be made on such books.

5.4 *Post-Merger Rights of Holders.* Following the Effective Time, the holders of certificates representing SCW Common Shares and each series of SCW Preferred Shares outstanding immediately prior to the Effective Time shall cease to have any rights with respect to stock of the Surviving Corporation and their sole rights shall be with respect to the HoldingCo Common Shares or series of HoldingCo Preferred Shares, respectively, into which their SCW Common shares or series of SCW Preferred Shares shall have been converted in connection with the Merger.

## ARTICLE 6

## CONDITIONS OF THE MERGER

Completion of the Merger is subject to the satisfaction of the following conditions:

6.1 *SCW Shareholder Approval.* The principal terms of this Agreement shall have been approved by shares constituting a majority of the combined voting power of the outstanding Common Shares and Preferred Shares. Each outstanding Common Share shall be entitled to one-tenth of a vote and each outstanding Preferred Share shall be entitled to one vote.

6.2 *HoldingCo Common Stock Listed.* The HoldingCo Common Stock to be issued and to be reserved for issuance pursuant to the Merger shall have been approved for listing, upon official notice of issuance, by the New York Stock Exchange.

6.3 *CPUC Approval.* The California Public Utilities Commission shall have approved the formation of a holding company structure for SCW pursuant to this agreement of merger in a form substantially similar to the Agreement, subject only to conditions deemed reasonable by the Board of Directors of SCW.

6.4 *Tax Opinion.* The Company shall have received from O'Melveny & Myers LLP an opinion to the effect that the Merger will constitute a tax-free reorganization for federal income tax purposes.

## ARTICLE 7

## AMENDMENT AND TERMINATION

7.1 *Amendment.* Subject to applicable law, the parties to this Agreement, by mutual consent of their respective boards of directors, may amend, modify or supplement this Agreement in such manner as may be agreed upon by them in writing at any time before or after approval of this Agreement by the pre-Merger shareholders of SCW (as provided in Section 6.1 above).

7.2 *Termination.* This Agreement may be terminated and the Merger and other transactions provided for by this Agreement may be abandoned at any time, whether before or after approval of this Agreement by the pre-Merger shareholders of SCW, by action of the board of directors of SCW if such board of directors determines for any reason that the completion of the transactions provided for herein would for any reason be inadvisable or not in the best interests of SCW or its shareholders.

## ARTICLE 8

## MISCELLANEOUS

8.1 *Approval of HoldingCo Shares.* By its execution and delivery of this Agreement, SCW, as the sole pre-Merger shareholder of HoldingCo, consents to, approves and adopts this Agreement and approves the Merger, subject to approval of this Agreement by the pre-Merger shareholders of SCW and the satisfaction of all other conditions specified in Article 6 above.

8.2 *Approval of MergeCo Shares.* By its execution and delivery of this Agreement, HoldingCo, as the sole pre-Merger shareholder of MergeCo, consents to, approves and adopts this Agreement and approves the Merger, subject to approval of this Agreement by the pre-Merger shareholders of SCW and the satisfaction of all other conditions specified in Article 6 above.

IN WITNESS WHEREOF, SCW, HoldingCo and MergeCo, pursuant to approval and authorization duly given by resolutions adopted by their respective boards of directors, have each caused this Agreement to be executed by its chairman of the board or its president or one of its vice presidents and by its secretary or one of its assistant secretaries.

SOUTHERN CALIFORNIA WATER COMPANY,  
a California corporation

By: Floyd E. Wicks

Name: Floyd E. Wicks

Title: President

By: McClellan Harris III

Name: McClellan Harris III

Title: Secretary

AMERICAN STATES WATER COMPANY,  
a California corporation

By: Floyd E. Wicks

Name: Floyd E. Wicks

Title: President

By: McClellan Harris III

Name: McClellan Harris III

Title: Secretary

SCW ACQUISITION CORP.,  
a California corporation

By: Floyd E Wicks

Name: Floyd E. Wicks

Title: President

By: McClellan Harris III

Name: McClellan Harris III

Title: Secretary



**APPENDIX A TO AGREEMENT OF MERGER  
RESTATED ARTICLES OF INCORPORATION  
OF  
SOUTHERN CALIFORNIA WATER COMPANY**

**Name**

One: The name of the corporation is SOUTHERN CALIFORNIA WATER COMPANY.

**Purpose**

Two: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

**Authorized Shares**

Three: The total number of shares which the corporation is authorized to issue is 1,000 shares of Common Stock.

**Director Liability**

Four: The liability of the directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California Law.

**Indemnification of Agents**

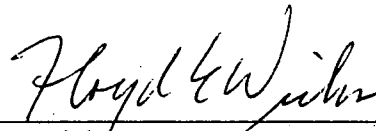
Five: The corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of shareholders or disinterested directors or otherwise, in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to the applicable limits set forth in Section 204 of the California Corporations Code with respect to actions for breach of duty to the corporation and its shareholders.

CERTIFICATE OF MERGER  
OF  
Southern California Water Company

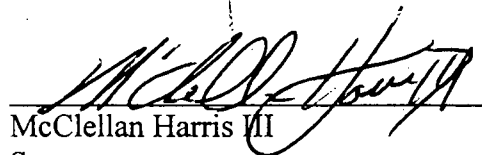
Floyd E. Wicks and McClellan Harris III certify that:

1. They are the duly elected and acting President and Secretary, respectively, of Southern California Water Company ("this corporation").
2. This certificate is attached to the Agreement of Merger dated as of June 25, 1998, providing for the merger of this corporation with SCW Acquisition Corp..
3. Such merger has been approved by the board of directors of this corporation.
4. 8,957,671 Common Shares of the Company, \$2.50 par value per share (the "Company Common Shares"), and 83,200 Preferred Shares of the Company, \$25.00 par value per share (the "Company Preferred Shares"), were entitled to vote on the merger. The principal terms of the Agreement of Merger in the form attached were approved by this corporation by the vote of the majority of the combined voting power of the Company Common Shares and the Company Preferred Shares, voting together as a single class.

Dated: June 25, 1998.



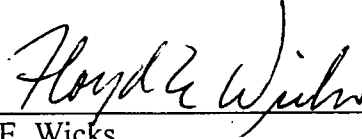
Floyd E. Wicks  
President



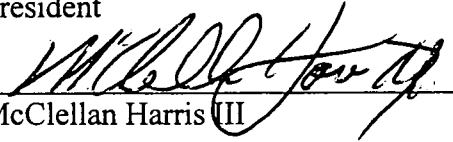
McClellan Harris III  
Secretary

The undersigned, Floyd E. Wicks and McClellan Harris III, the President and Secretary, respectively, of Southern California Water Company, each declares under penalty of perjury that the matters set out in the foregoing Certificate of Merger are true of his own knowledge.

Executed on June 25, 1998.



Floyd E. Wicks  
President



McClellan Harris III  
Secretary

CERTIFICATE OF MERGER

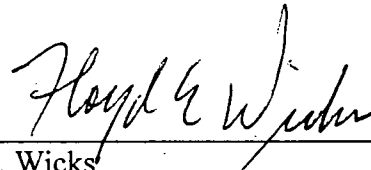
OF

SCW Acquisition Corp.

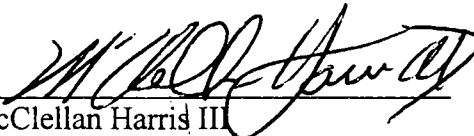
Floyd E. Wicks and McClellan Harris III certify that:

1. They are the duly elected and acting President and Secretary, respectively, of SCW Acquisition Corp. ("this corporation").
2. This certificate is attached to the Agreement of Merger dated as of June 25, 1998, providing for the merger of this corporation with Southern California Water Company.
3. Such merger has been approved by the board of directors of this corporation.
4. The principal terms of the Agreement of Merger in the form attached were approved by this corporation by the vote of the sole shareholder of all 100 outstanding shares of this corporation.

Dated: June 25, 1998.



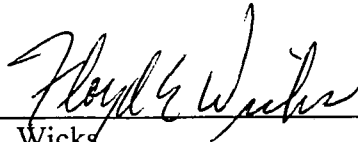
Floyd E. Wicks  
President

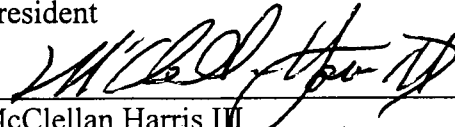


McClellan Harris III  
Secretary

The undersigned, Floyd E. Wicks and McClellan Harris III, the President and Secretary, respectively, of SCW Acquisition Corp., each declares under penalty of perjury that the matters set out in the foregoing Certificate of Merger are true of his own knowledge.

Executed on June 25, 1998.

  
\_\_\_\_\_  
Floyd E. Wicks  
President

  
\_\_\_\_\_  
McClellan Harris III  
Secretary

**BYLAWS****for the regulation, except  
as otherwise provided by statute or  
its Restated Articles of Incorporation,  
of  
Golden State Water Company  
(a California corporation)****ARTICLE I. Offices.**

**Section 1. PRINCIPAL EXECUTIVE OFFICE.** The principal executive office of the corporation shall be fixed and located at such place as the Board of Directors (herein called the "Board") shall determine. The Board is hereby granted full power and authority to change said principal executive office from one location to another.

**Section 2. OTHER OFFICES.** Branch or subordinate offices may at any time be established by the Board at any place or places.

**ARTICLE II. Meetings of Shareholders.**

**Section 1. PLACE OF MEETINGS.** Meetings of shareholders shall be held either at the principal executive office of the corporation or at any other place within or without the State of California which may be designated either by the Board or by the written consent of all persons entitled to vote thereat, given either before or after the meeting and filed with the Secretary.

**Section 2. ANNUAL MEETINGS.** The annual meetings of shareholders shall be held on such date and at such time as may be fixed by the Board.

**Section 3. SPECIAL MEETINGS.** Special meetings of the shareholders, for any purpose or purposes whatsoever, may be called at any time by the Board, the Chairman of the Board, the President, or by the holders of shares entitled to cast not less than ten percent of the votes at such meeting.

**ARTICLE III. Directors.**

**Section 1. POWERS.** Subject to limitations of the Articles, these Bylaws and of the California General Corporation Law as to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board.

**Section 2. NUMBER OF DIRECTORS.** The authorized number of directors shall be not less than six or more than eleven until changed by amendment of the Articles or by a Bylaw duly adopted by the shareholders amending this Section 2. The exact number of directors shall be fixed, within the limits specified, by the Board from time to time in a resolution adopted by a majority of the directors. The exact number of directors shall be ten until changed as provided in this Section 2.

**ARTICLE IV. Officers.**

**Section 1. OFFICERS.** The officers of the corporation shall be a President, a Secretary, and a Chief Financial Officer. The corporation may also have, at the discretion of the Board, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as the Board may from time to time determine.

**Section 2. PRESIDENT.** The President shall be the general manager and chief executive officer of the corporation and has, subject to the control of the Board, general supervision, direction and control of the business and officers of the corporation. The President shall preside at all meetings of the shareholders and at all meetings of the Board. The President has the general powers and duties of management usually vested in the office of president and general manager of a corporation and has such other powers and duties as may be prescribed by the Board.

**Section 3. SECRETARY.** The Secretary shall keep or cause to be kept, at the principal executive office or such other place as the Board may order, a book of minutes of all meetings of the shareholders, the Board and its committees, and a share register or a duplicate share register.

The Secretary shall give, or cause to be given, notice of all the meetings of the shareholders and of the Board and any committees thereof required by the Bylaws or by law to be given, shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board.

**Section 4. CHIEF FINANCIAL OFFICER.** The Chief Financial Officer is the chief financial officer of the corporation and shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the corporation, and shall send or cause to be sent to the shareholders of the corporation such financial statements and reports as are by law or these Bylaws required to be sent to them. The books of account shall at all times be open to inspection by any director.

The Chief Financial Officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the Board. The Chief Financial Officer shall disburse the funds of the corporation as may be ordered by the Board, shall render to the President and the directors, whenever they request it, an account of all transactions as Treasurer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board.

**ARTICLE V. Other Provisions.**

**Section 1. ANNUAL REPORT TO SHAREHOLDERS.** The annual report to shareholders referred to in Section 1501 of the California General Corporation Law is expressly waived, but nothing herein shall be interpreted as prohibiting the Board from issuing annual or other periodic reports to shareholders.

**Section 2. CONSTRUCTION AND DEFINITIONS.** Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the General Provisions of the California Corporations Code and in the California General Corporation Law shall govern the construction of these Bylaws.

**ARTICLE VI. Amendments.**

These Bylaws may be amended or repealed either by approval of the outstanding shares (as defined in Section 152 of the California General Corporation Law) or by the approval of the Board; provided, however, that after the issuance of shares, a bylaw specifying or changing a fixed number of directors or the maximum or minimum number or changing from a fixed to a variable number of directors or vice versa may be adopted only by approval of the outstanding shares, and a bylaw reducing the fixed number or the minimum number of directors to a number less than five shall be subject to the provisions of Section 212(a) of the California General Corporation Law.

**ARTICLE VII. Indemnification.****Section 1. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

(a) Each person who was or is a party or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the corporation, or of any predecessor corporation, or is or was a director or officer who is or was serving at the request of the corporation as a director, officer, employee or other agent of another corporation, a partnership, joint venture, trust or other enterprise (including service with respect to corporation-sponsored employee benefit plans), whether the basis of such proceeding is alleged action or inaction in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall, subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation to the fullest extent permissible under California law and the corporation's Articles, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) actually and reasonably incurred or suffered by such person in connection therewith; provided, however, that amounts paid in settlement of a proceeding shall be payable only if the settlement is approved in writing by the corporation. Such indemnification shall continue as to a person who has ceased to be a director or officer for acts performed while a director or officer and shall inure to the benefit of his or her heirs, executors and administrators. Notwithstanding the foregoing, the corporation shall indemnify any such person in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of the corporation. The right to indemnification conferred in this Article shall include the right to be paid by the corporation the expenses incurred in defending any proceeding in advance of final disposition to the fullest extent permitted by law, provided, however, that the payment under this Article of such expenses in advance of the final disposition of a proceedings shall be conditioned upon the delivery to the corporation of a written request for such advance and of an undertaking by or on behalf of the director or officer to repay all amounts so advanced if it shall be ultimately determined that such director or officer is not entitled to be indemnified.



(b) Notwithstanding the foregoing or any other provisions under this Article, the corporation shall not be liable under this Article to indemnify a director or officer against expenses, liabilities or losses incurred or suffered in connection with, or make any advances with respect to, any proceeding against a director or officer: (i) as to which the corporation is prohibited by applicable law from paying as an indemnity, (ii) with respect to expenses of defense or investigation, if such expenses were or are incurred without the corporation's consent (which consent may not be unreasonably withheld), (iii) for which payment is actually made to the director or officer under a valid and collectible insurance policy maintained by the corporation, except in respect of any excess beyond the amount of payment under such insurance, (iv) for which payment is actually made to the director or officer under an indemnity by the corporation otherwise than pursuant to this Bylaw Article, except in respect of any excess beyond the amount of payment under such indemnity, (v) based upon or attributable to the director or officer gaining in fact any personal profit or advantage to which he or she was not legally entitled, (vi) for an accounting of profits made from the purchase or sale by the director or officer of securities of the corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law, or (vii) based upon acts or omissions involving intentional misconduct or a knowing and culpable violation of law.

**Section 2. INDEMNIFICATION OF EMPLOYEES AND AGENTS.** A person who was or is a party or is threatened to be made a party to or is involved in any proceeding by reason of the fact that he or she is or was an employee or agent of the corporation or is or was an employee or agent of the corporation who is or was serving at the request of the corporation as an employee or agent of another enterprise, including service with respect to corporation-sponsored employee benefits plans, whether the basis of such action is alleged action or inaction in an official capacity or in any other capacity while serving as an employee or agent, may, upon appropriate action by the corporation and subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation up to the fullest extent permitted by California law and the corporation's Articles, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person in connection therewith.

**Section 3. RIGHT OF DIRECTORS AND OFFICERS TO BRING SUIT.** If a claim under Section 1 of this Article is not paid by the corporation or on its behalf within 90 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim, and, if successful in whole or in part, the claimant also shall be entitled to be paid the expense of prosecuting such claim.

**Section 4. SUCCESSFUL DEFENSE.** Notwithstanding any other provision of this Article, to the extent that a director or officer has been successful on the merits or otherwise (including the dismissal of a proceeding without prejudice or the settlement with the written consent of the corporation of a proceeding without admission of liability) in defense of any proceeding referred to in Section 1 or in defense of any claim, issue or matter therein, such director or officer shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

**Section 5. INDEMNITY AGREEMENTS.** The corporation may enter into agreements with any director, officer, employee or agent of the corporation providing for indemnification to the fullest extent permissible under applicable law and the corporation's Articles.

**Section 6. SUBROGATION.** In the event of payment by the corporation of a claim under Section 1 of this Article, the corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the indemnified person, who shall execute all papers required and shall do everything that may be necessary or appropriate to secure such rights, including the execution of such documents necessary or appropriate to enable the corporation effectively to bring suit to enforce such rights.

**Section 7. NON-EXCLUSIVITY RIGHTS.** The right to indemnification provided by this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

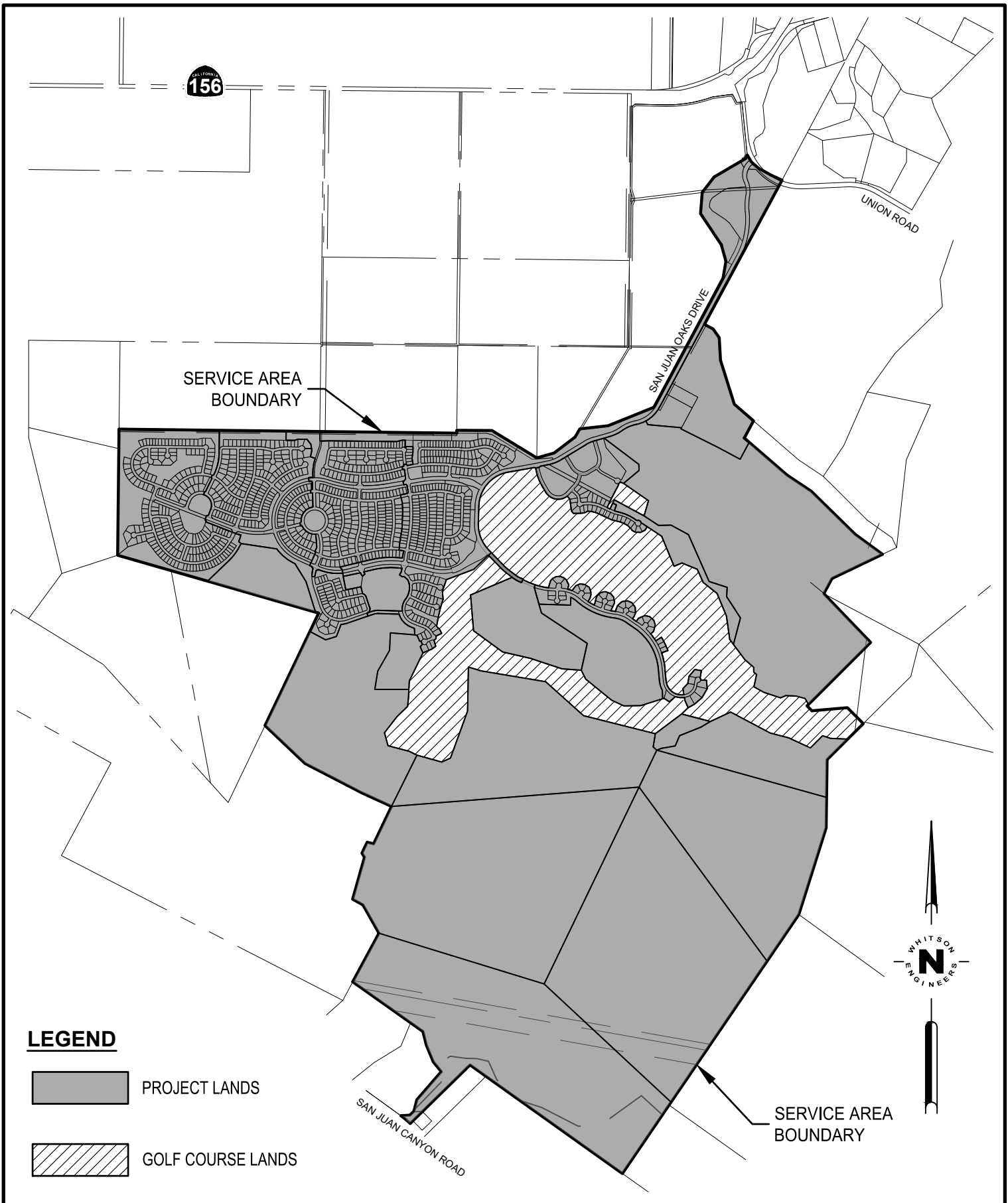
**Section 8. INSURANCE.** The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, a partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under California law.

**Section 9. EXPENSES AS A WITNESS.** To the extent that any director, officer or employee of the corporation is by reason of such position a witness in any action, suit or proceeding, he or she will be indemnified against all costs and expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith.

**Section 10. NONAPPLICABILITY TO FIDUCIARIES OF EMPLOYEE BENEFIT PLANS.** This article does not apply to any proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the corporation. The corporation shall have power to indemnify such trustee, investment manager or other fiduciary to the extent permitted by subdivision (f) of Section 207 of the California General Corporation Law.

**Section 11. SEPARABILITY.** Each and every paragraph, sentence, term and provision of this Article is separate and distinct so that if any paragraph, sentence, term or provision shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Article may be modified by a court of competent jurisdiction to preserve its validity and to provide the claimant with, subject to the limitations set forth in this Article and any agreement between the corporation and the claimant, the broadest possible indemnification permitted under applicable law.

**Section 12. EFFECT OF REPEAL OR MODIFICATION.** Any repeal or modification of this Article shall not adversely affect any right of indemnification of a director, officer, employee or agent of the corporation existing at the time of such repeal or modification with respect to any action or omission occurring prior to such repeal or modification.



**LEGEND**



PROJECT LANDS



GOLF COURSE LANDS



**SAN JUAN OAKS**

SAN BENITO COUNTY

CALIFORNIA

**MAP OF PROJECT SITE AND SERVICE AREA**

DRAWING PATH: T:\Monterey Projects\1613\CAD\EXHIBITS\WSA\A - Project Site.dwg

DATE: 2/16/23

SCALE: 1" = 2000'

DRAWN: APH

CHECKED: APH

PROJECT No.: 1613.19

EXHIBIT

**A**

**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-K**

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

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2022 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

| Commission<br>File Number | Registrant, State of Incorporation<br>Address, Zip Code and Telephone Number   | IRS Employer<br>Identification No. |
|---------------------------|--|------------------------------------|
| 001-14431                 | <b>American States Water Company</b><br>Incorporated in California<br>630 E. Foothill Boulevard, San Dimas CA 91773-1212<br>(909) 394-3600 | 95-4676679                         |
| 001-12008                 | <b>Golden State Water Company</b><br>Incorporated in California<br>630 E. Foothill Boulevard, San Dimas CA 91773-1212<br>(909) 394-3600    | 95-1243678                         |

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

| Title of Each Class                         | Trading Symbol | Name of Each Exchange on Which Registered |
|---|----------------|---|
| American States Water Company Common Shares | AWR            | New York Stock Exchange                   |

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

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

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

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

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

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

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

Indicate by check mark whether Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files).

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

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  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

**Golden States Water Company**

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

American States Water Company   
Golden State Water Company

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

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

The aggregate market value of all voting and non-voting Common Shares held by non-affiliates of American States Water Company was approximately \$3,012,286,000 on June 30, 2022, the last business day of the registrant’s most recently completed second fiscal quarter, based on the closing price per Common Share of American States Water Company as traded on the New York Stock Exchange. As of February 28, 2023, the number of Common Shares of American States Water Company outstanding was 36,969,622. As of that same date, American States Water Company owned all 171 outstanding Common Shares of Golden State Water Company. The aggregate market value of all voting stock held by non-affiliates of Golden State Water Company was zero on June 30, 2022.

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

**Documents Incorporated by Reference:**

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

**AMERICAN STATES WATER COMPANY  
and  
GOLDEN STATE WATER COMPANY**

**FORM 10-K**

**INDEX**

|                        |   |            |
|------------------------|---|------------|
| <b><u>Part I</u></b>   |   |            |
| <u>Item 1.</u>         | <u>Business</u>   | <u>3</u>   |
| <u>Item 1A.</u>        | <u>Risk Factors</u>   | <u>8</u>   |
| <u>Item 1B.</u>        | <u>Unresolved Staff Comments</u>  | <u>22</u>  |
| <u>Item 2.</u>         | <u>Properties</u>   | <u>23</u>  |
| <u>Item 3.</u>         | <u>Legal Proceedings</u>  | <u>24</u>  |
| <u>Item 4.</u>         | <u>Mine Safety Disclosure</u>   | <u>24</u>  |
| <b><u>Part II</u></b>  |   |            |
| <u>Item 5.</u>         | <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>25</u>  |
| <u>Item 6.</u>         | <u>Reserved</u>   | <u>27</u>  |
| <u>Item 7.</u>         | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                        | <u>28</u>  |
| <u>Item 7A.</u>        | <u>Quantitative and Qualitative Disclosures about Market Risk</u>   | <u>58</u>  |
| <u>Item 8.</u>         | <u>Financial Statements and Supplementary Data</u>  | <u>60</u>  |
| <u>Item 9.</u>         | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | <u>114</u> |
| <u>Item 9A.</u>        | <u>Controls and Procedures</u>  | <u>114</u> |
| <u>Item 9B.</u>        | <u>Other Information</u>  | <u>114</u> |
| <u>Item 9C.</u>        | <u>Disclosure Regarding Foreign Jurisdictions that Prevent Inspections</u>  | <u>114</u> |
| <b><u>Part III</u></b> |   |            |
| <u>Item 10.</u>        | <u>Directors, Executive Officers and Corporate Governance</u>   | <u>115</u> |
| <u>Item 11.</u>        | <u>Executive Compensation</u>   | <u>115</u> |
| <u>Item 12.</u>        | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>               | <u>115</u> |
| <u>Item 13.</u>        | <u>Certain Relationships and Related Transactions, and Director Independence</u>                                    | <u>115</u> |
| <u>Item 14.</u>        | <u>Principal Accounting Fees and Services</u>   | <u>115</u> |
| <b><u>Part IV</u></b>  |   |            |
| <u>Item 15.</u>        | <u>Exhibits, Financial Statement Schedules</u>  | <u>116</u> |
| <u>Item 16.</u>        | <u>Form 10-K Summary</u>  | <u>118</u> |
|                        | <u>Schedule I — Condensed Financial Information of Parent and Notes</u>   | <u>121</u> |

**PART I****Item 1. Business**

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

AWR makes its periodic reports, Form 10-Q and Form 10-K, and current reports, Form 8-K, available free of charge through its website, [www.aswater.com](http://www.aswater.com), as soon as material is electronically filed with or furnished to the Securities and Exchange Commission (“SEC”). Such reports are also available on the SEC’s website at [www.sec.gov](http://www.sec.gov). AWR also makes available free of charge its code of business conduct and ethics, its corporate governance guidelines and the charters of its Nominating and Governance Committee, Compensation Committee and Audit and Finance Committee through its website or by calling (877) 463-6297. AWR and GSWC have filed the certification of officers required by Section 302 of the Sarbanes-Oxley Act as Exhibits [31.1](#) and [31.2](#) to this Form 10-K for fiscal 2022.

**Overview**

AWR is the parent company of GSWC, Bear Valley Electric Service, Inc. (“BVESI”) and American States Utility Services, Inc. (“ASUS”) (and its wholly owned subsidiaries: Fort Bliss Water Services Company (“FBWS”), Terrapin Utility Services, Inc. (“TUS”), Old Dominion Utility Services, Inc. (“ODUS”), Palmetto State Utility Services, Inc. (“PSUS”), Old North Utility Services, Inc. (“ONUS”), Emerald Coast Utility Services, Inc. (“ECUS”) and Fort Riley Utility Services, Inc. (“FRUS”). On July 1, 2020, GSWC completed the transfer of the electric utility assets and liabilities from its electric division to BVESI, in exchange for common shares of BVESI. GSWC then immediately distributed all of BVESI’s common shares to AWR, whereupon BVESI became wholly owned directly by AWR. This reorganization did not result in any substantive changes to AWR’s operations and business segments.

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 its regulated utilities GSWC and BVESI, respectively, and contracted services conducted through ASUS and its subsidiaries. FBWS, TUS, ODUS, PSUS, ONUS, ECUS and FRUS may be referred to herein collectively as the “Military Utility Privatization Subsidiaries.”

GSWC is a public water utility engaged in the purchase, production, distribution and sale of water in 10 counties in the state of California. GSWC is regulated by the California Public Utilities Commission (“CPUC”). BVESI is a public electric utility that distributes electricity in several San Bernardino County mountain communities in California, and is also regulated by the CPUC. Additional information regarding public utility regulation is discussed in Item 7. “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” under the section titled “[Regulatory Matters](#).”

AWR’s regulated utilities served 263,265 water customers and 24,705 electric customers at December 31, 2022, or a total of 287,970 customers, compared with 262,770 water customers and 24,656 electric customers at December 31, 2021, or a total of 287,426 customers. Both GSWC’s and BVESI’s operations exhibit seasonal trends. Although both have diversified customer bases, residential and commercial customers account for the majority of water and electric sales and revenues. Revenues derived from commercial and residential customers accounted for approximately 90% of total water and electric revenues for the years ended December 31, 2022, 2021 and 2020.

ASUS, through the Military Utility Privatization Subsidiaries, has contracted with the U.S. government to provide water and/or wastewater services at various military installations. ASUS operates, maintains and performs construction activities (including renewal and replacement capital work) on water and/or wastewater systems at various U.S. military bases pursuant to an initial 50-year firm, fixed price contract and additional firm, fixed-price contracts. Each of the contracts with the U.S. government is subject to termination, in whole or in part, prior to the end of its 50-year term for convenience of the U.S. government or as a result of default or nonperformance by the ASUS subsidiary performing the contract. The price for each of these contracts is subject to annual economic price adjustments. Contracts are also subject to modifications for changes in circumstances, changes in laws and regulations, and additions to the contract value for new construction of facilities at the military bases. AWR guarantees performance of ASUS’s military privatization contracts.



Pursuant to the terms of the 50-year contract with the U.S. government, the Military Utility Privatization Subsidiaries operate the following water and wastewater systems:

| Subsidiary | Military Base  | Type of System                                | Location             |
|------------|--|---|----------------------|
| FBWS       | Fort Bliss   | Water and Wastewater                          | Texas and New Mexico |
| TUS        | Joint Base Andrews   | Water and Wastewater                          | Maryland             |
| ODUS       | Fort Lee   | Wastewater                                    | Virginia             |
| ODUS       | Joint-Base Langley Eustis and Joint Expeditionary Base Little Creek-Fort Story | Water and Wastewater                          | Virginia             |
| PSUS       | Fort Jackson   | Water and Wastewater                          | South Carolina       |
| ONUS       | Fort Bragg, Pope Army Airfield and Camp Mackall                                | Water and Wastewater                          | North Carolina       |
| ECUS       | Eglin Air Force Base   | Water and Wastewater                          | Florida              |
| FRUS       | Fort Riley   | Water and Wastewater Collection and Treatment | Kansas               |

Certain financial information for each of AWR's business segments - water distribution, electric distribution, and contracted services - is set forth in [Note 17](#) to the Notes to Consolidated Financial Statements of American States Water Company and its subsidiaries. While AWR's water and electric utility segments are not dependent upon a single or only a few customers, the U.S. government is the primary customer for ASUS's contracted services. ASUS, from time to time, performs work at military bases for other prime contractors of the U.S. government.

**Seasonality**

The demand for water and electricity varies by season. For instance, there can be a higher level of water consumption during the third quarter of each year when weather in California tends to be hot and dry. During unusually wet weather, our customers generally use less water. The CPUC has adopted regulatory mechanisms at GSWC that help mitigate fluctuations in revenues due to changes in water consumption by our customers in California, which currently remain in effect.

The demand for electricity in our electric customer service area is greatly affected by winter snow levels. An increase in winter snow levels reduces the use of snow making machines at ski resorts in the Big Bear area and, as a result, reduces our electric revenues. Likewise, unseasonably warm weather during a skiing season may result in temperatures too high for snow making conditions, which also reduces our electric revenues. The CPUC has adopted regulatory mechanisms for our electric business, which helps mitigate fluctuations in the revenues of our electric business due to changes in the amount of electricity used by BVESI's customers.

**Environmental Regulations**

AWR's subsidiaries are subject to extensive environmental regulations. GSWC is required to comply with safe drinking water requirements, including testing to determine constituents in its water supply and customer notification requirements if certain contaminants exceed maximum levels or advisory levels, and requirements to address issues relating to known contamination. The subsidiaries of ASUS are subject to similar requirements in connection with their water and wastewater operations on military bases. GSWC is also responsible for clean-up and remediation at a plant site that contained an underground storage tank. As mandated by legislation enacted in California, BVESI is required to submit wildfire mitigation plans to the CPUC for approval. California requires all electric utilities to prepare plans on constructing, maintaining, and operating their electrical lines and equipment to minimize the risk of catastrophic wildfire.

ASUS's subsidiaries are responsible for ensuring compliance with the reduction and/or removal of all constituents required under its wastewater treatment plant operating permits. ASUS works closely with state regulators and industry associations to stay current with emergent issues and proactively addresses any change in wastewater treatment regulation to ensure permit compliance.

The regulated utilities spent approximately \$21.7 million in 2022 and expect to spend approximately \$24.3 million in 2023 for capital expenditures on environmental control facilities. During 2022, ASUS performed construction activities (for the benefit of the U.S. government) related to environmental control facilities with a contract value of \$922,000. ASUS expects to perform construction activities related to environmental control facilities with a contract value of \$1.7 million in 2023. In addition, various other capital expenditures at the regulated utilities and construction projects at ASUS are incurred for purposes other than environmental control facilities, but may also have some environmental benefits. An environmental control facility is any facility that is reasonably expected to abate, reduce or aid in the prevention, measurement, control of monitoring of noise, air or water pollutants, solid waste, thermal pollution, radiation or other pollutants.

Environmental matters and compliance with such laws and regulations are discussed further in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the section titled "[Environmental Matters](#)."

## **Climate Change Planning, Risks and Opportunities**

Climate change is one area that we focus on as we develop and execute our business strategy and financial planning, both in the short- and long-term and is subject to the oversight of the Board of Directors and senior management. First and foremost, designing and implementing efficient and resilient infrastructure and operational processes not only addresses climate change, but also reduces costs. Our capital investment programs are critical to ensure we can continue delivering reliable, high-quality water, wastewater and electric services without interruption. As a utility company, our operating strategy is dependent on having a reliable infrastructure in place.

The risks posed by climate variability increase the need for us to plan for and address supply resiliency. We address these risks by planning, assessing, mitigating, and investing in our infrastructure for the long-term benefit of our communities. As a provider of an essential product and service, our primary goal is to ensure service is uninterrupted.

GSWC considers the potential impacts of climate change in its water supply portfolio planning and its overall infrastructure replacement plans. We evaluate how water supplies, water quality and water demands may change, and consider mitigation strategies to assist us in being able to deliver water to our customers.

We seek to minimize our greenhouse gas (GHG) emissions to assist in reducing the effects of climate change. We studied our GHG emissions levels, set a 2020 baseline, and developed a GHG emissions reduction target of 60% by 2035 from the 2020 baseline. To accomplish this, Registrant has developed a phased approach, which includes short-, medium- and long-term actions. Our priorities include reductions in energy use and increasing purchases of green energy for our water operations, increasing purchases of green energy for distribution to our electric customers, and reviewing our vehicle fleet needs and electrification. Achievement of this reduction target is contingent on certain external factors, which include the ongoing development of technology, and successful achievement by the state of California in reaching its Renewables Portfolio Standard goal for this period.

### *Water Utility*

There are risks to maintaining adequate water quality and/or supply, either from climate variability or other events. They include droughts, changes in weather patterns, natural disasters, wildfires, decisions or actions restricting the use of water from our sources, and/or pumping of groundwater, and contamination or acts of terrorism or vandalism. We consider these potential events in our strategic planning process as we aim to avoid service interruptions and compromised water quality.

Our goal is to maintain adequate and high-quality water supplies. We strive to reach this goal in a number of ways, including monitoring water levels, short- and long-term water supply planning, having a diverse water supply portfolio, developing contingency plans, water efficiency and conservation efforts, and maintaining a strong infrastructure. Additional information on GSWC's water supplies is discussed further in Item 7. "*Management's Discussion and Analysis of Financial Condition and Results of Operation*" under the section titled "*Water Supplies.*"

### *Electric Utility*

Climate change has also impacted electric utilities in California due to an increase in wildfires. BVESI's compliance with its wildfire mitigation plans have resulted in an increase in capital expenditures for wildfire mitigation projects. BVESI will not be able to recover the costs incurred to make capital improvements included in BVESI's current wildfire mitigation plans from customers until the CPUC approves recovery of these costs in its next general rate case filing, which was filed in August 2022 and will determine new electric rates for the years 2023-2026. Power supplies may also become more constrained and more expensive due to regulation of power plants using fossil fuels.

California has established a cap-and-trade program applicable to greenhouse gas emissions. While BVESI's power-plant emissions are below the reporting threshold, as a "Covered Entity" BVESI has an obligation to file a report with the California Air Resources Board (CARB) in June of each year under the Greenhouse Gas Mandatory Reporting Regulation. The report will become available publicly in the last quarter of 2023.

The State of California and the CPUC have established renewable energy procurement targets. BVESI has entered into a CPUC-approved ten-year contract for renewable energy credits. Because of this agreement, BVESI believes it will comply through at least 2023 with California's renewable energy statutes that address this issue. BVESI is pursuing short- and long-term renewable energy contracts to satisfy its requirements related to its resource portfolio for compliance period 4 (2021-2024) and beyond.

In 2022, BVESI's renewable power represented 38.5% of total electric supply purchases. Renewable Energy Procurement requirements continue to escalate, reaching 50% by 2026 and 100% carbon free by 2045. BVESI has issued a proposal to construct a solar energy project in Big Bear Lake, subject to obtaining CPUC approval and necessary permits. If approved and constructed, the project will provide a clean, local energy solution for the service territory.

BVESI offers a Distributed Generation Program, which benefits customers who install a solar or wind-generating facility that produces renewable energy. Those customers can receive a bill credit if their monthly renewable energy production

exceeds their on-site use. BVESI also has a number of customers on its Net Energy Metering Program (NEM), which was the previous renewable energy program. NEM customers can receive a bill credit if their annual renewable energy production exceeds their on-site use. Approximately 5% of the energy consumed by our BVESI customers is now generated by customer-owned renewable sources (solar).

BVESI is also required to comply with the CPUC's greenhouse gas emission performance standards. Under these standards, BVESI must file an annual attestation with the CPUC stating that BVESI has no new ownership investment in generation facilities exceeding the emission performance standards and no long-term commitments for generation exceeding the standards. In January 2023, BVESI filed an attestation that BVESI complied with the standards for 2022. At this time, management cannot estimate the impact, if any, that these regulations may have on future costs over BVESI's power plant operations or the cost of BVESI's purchased power from third party providers.

### **COVID-19**

GSWC, BVESI and ASUS have continued their operations throughout the COVID-19 pandemic given that their water, wastewater and electric utility services are deemed essential. AWR's responses take into account orders issued by the CPUC, and continued monitoring of guidance provided by federal, state, and local health authorities and other government officials for the COVID-19 pandemic.

Some of the actions taken by GSWC and BVESI included suspending service disconnections for nonpayment pursuant to CPUC and state orders, and telecommuting by employees. The suspension of water-service disconnections at GSWC were implemented in response to an executive order from the governor of California, as well as CPUC orders. Pursuant to a CPUC July 2021 decision, the moratorium on water-service disconnections due to non-payment of past-due amounts billed to residential customers expired on February 1, 2022. However, water service cannot be disconnected so long as customers make timely payments on current bills, and are provided and adhere to payment plans to pay down past-due bills resulting from the pandemic. The moratorium on electric customer service disconnections ended on September 30, 2021. However, electric-service disconnections for non-payment can only be done after taking into account other matters, such as average daily temperatures under certain conditions, and residential disconnections are capped on an annual basis at 2.5% of the total residential customers during the previous calendar year. With the CPUC's moratoriums on service disconnections for nonpayment for water and electric customers ending, service disconnections due to nonpayment have resumed with disconnections for delinquent residential customers resuming in June 2022.

The COVID-19 pandemic and its lingering effects to the economy contributed to significant volatility in financial markets throughout the pandemic. The continued economic impact could adversely impact the value of GSWC's pension and other retirement plan assets due to possible declines in security prices.

In addition, the lingering effects of the pandemic has placed a strain on supply chains to sufficiently meet demand of materials and supplies necessary to complete some capital expenditure projects at our regulated utilities, as well as some construction projects at our contracted services segment. While we may purchase materials and supplies upfront when appropriate, there can be no assurance that our efforts will prevent delays or disruptions to our capital investments or construction projects. Furthermore, Registrant has experienced increased costs due to the impacts of inflation. The regulated utilities may update their costs as part of general rate case proceedings or advice letter filings, as related to COVID-19 emergency costs. ASUS may update prices annually through economic price adjustments. However, until we receive increased funding to offset higher costs, our liquidity may be negatively impacted.

Additional information regarding the impact of COVID-19 on GSWC and BVESI is provided in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation" under the section titled [COVID-19](#).

### **Competition**

The businesses of GSWC and BVESI are substantially free from direct and indirect competition with other public utilities, municipalities and other public agencies within their existing service territories. However, GSWC and BVESI may be subject to eminent domain proceedings in which governmental agencies, under state law, may acquire GSWC's water systems or BVESI's electric system if doing so is necessary and in the public's interest. GSWC competes with governmental agencies and other investor-owned utilities in connection with offering service to new real estate developments on the basis of financial terms, availability of water and ability to commence providing service on a timely basis. ASUS actively competes for business with other investor-owned utilities, other third-party providers of water and/or wastewater services, and governmental entities primarily on the basis of quality of service and price.

## **AWR Workforce**

AWR and its subsidiaries had a total of 811 employees as of December 31, 2022. GSWC had 501 employees as of December 31, 2022. BVESI had 46 employees, of which 17 employees are covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers, which expires in December 2025. All of the employees of GSWC and BVESI are located in California. At times, GSWC and BVESI use temporary and contract workers for a finite period of time and in a limited capacity to continue a project or workflow until they can hire a regular employee. It is also common for those temporary workers to be hired on as a regular, full-time employee.

ASUS and its subsidiaries had a total of 264 employees as of December 31, 2022. Fifteen of FBWS's employees are covered by a collective bargaining agreement with the International Union of Operating Engineers. This agreement expires in September 2023.

Our businesses requires a combination of complex infrastructure, regulatory expertise and customer service. Ongoing development of our talent across the organization to meet critical business needs is a continual focus, and includes (i) building a culture such that high-potential talent is identified and further developed, (ii) creating career paths that not only move up a specialized ladder, but across the organization, and (iii) offering opportunities for employees to accept new challenges through stretch assignments.

### *Attracting Diverse Candidates*

We understand that strength comes from having a diverse employee population. We strive to hire from our local communities and have a workforce that is representative, at all job levels, of the communities we serve. This begins with the recruitment process. We strive to have all aspects of employment, including the decision to hire, promote, discipline, or discharge, be based on merit, competence, performance, and business needs. It is our policy not to discriminate on the basis of race, color, religion, marital status, age, national origin, ancestry, physical or mental disability, medical condition, pregnancy, genetic information, gender, sexual orientation, gender identity or expression, veteran status, or any other status protected under federal, state, or local laws.

### *Compensation and Benefits*

We pay employees a competitive and fair wage, as benchmarked with other leading companies and the market. Consistent with our principle of valuing personal mastery, we reward employees for improving their skills and capabilities. Our benefits include a defined benefit pension plan for employees hired prior to January 1, 2011, a defined contribution plan for hires or rehires after December 31, 2010, a 401(k) plan, healthcare and insurance benefits, health savings and flexible spending accounts.

### *Safety and Training*

Strong Occupational Health and Safety practices reduce injuries, keep our workforce healthy, and reduce operating costs. A safe workforce translates into better performance company-wide. We work to create a safety-focused culture in which each individual feels personally responsible for their own safety, the safety of their co-workers, as well as the safety of the communities they serve. Safety performance is included as a metric in the officer and manager compensation programs. Employees attend training in various mandated safety programs that are applicable to their operations. In addition, there are regulatory safety training requirements as well as training requirements for the Department of Transportation and training requirements for compliance with local, state, and federal environmental laws.

To reinforce our safety efforts and protocols, company-wide safety inspections at GSWC and BVESI are conducted with supervisors. The inspection reports are forwarded to management for review, allocation of resources are made (if needed), and corrective actions are taken. ASUS has a dedicated Safety Coordinator located at each military base installation served. The onsite Safety Coordinator is responsible for regulatory compliance, as well as beneficial health and safety monitoring functions.

### *Learning and Development*

Compliance training is required each year, for each employee. Other types of training are offered on an optional basis. Examples of optional programs include ongoing water operations competencies and education, supervisor development, knowledge capture and management, feedback and measurements to show the value of learning solutions, and administrative oversight for various business competencies relative to mandated training and compliance requirements. We pay for approved external business-related seminars and workshops. Certain positions require employees to maintain all of their job-specific certifications, licenses and continuing education credits.

On a regular and ongoing basis, we require all employees to certify that they have reviewed and understand our Code of Conduct as well as our Employee Handbook. We provide harassment and prevention awareness training for all employees.

### *Succession Planning*

On an annual basis, our senior management team completes a roadmap for improving human capital management by developing succession plans with the goal of achieving the most efficient alignment of resources and talent to meet business needs. This includes identifying key succession positions and potential successors for top-level positions, such as Vice Presidents, for the next ten years.

Recruiting, developing and retaining the right talent is key to our long-term success. With 30% of our employees eligible for retirement in the next five years, we are focused on transferring institutional knowledge, continue succession planning and pursue recruitment and development strategies to attract qualified talent.

### **Cybersecurity**

Cyberattacks represent an increasing threat to water, wastewater and electric utility systems and thereby the safety and security of our communities. There have also been increasing threats to the information that companies maintain that have resulted in the unauthorized disclosure of private customer, employee, director and corporate financial information.

We have increased our investments in information technology to monitor and address these threats and attempted cyber-attacks, and to improve our posture in addressing security vulnerabilities. We have adopted multi-layered safeguards and educational measures to protect our operations, assets and digital information. Cybersecurity updates are given to the Board of Directors on a quarterly basis. Quarterly cybersecurity training is required for all employees, with the topics varying each quarter. We also conduct specialized training for employees annually on protecting certain types of information relating to the work we do with the U.S. government. While we have increased our investments in information technology and in employee awareness and education to address security vulnerabilities, there can be no assurance that these measures and our efforts will prevent a cyber-attack.

### **Forward-Looking Information**

This Form 10-K and the documents incorporated herein contain forward-looking statements intended to qualify for the “safe harbor” from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current estimates, expectations and projections about future events and assumptions regarding these events and include statements regarding management’s 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 “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend,” “may” and other words that convey uncertainty of future events or outcomes, we are making forward-looking statements. We are not able to predict all the factors that may affect future results. We caution you that any forward-looking statements made by us are not guarantees of future performance and the actual results may differ materially from those in our forward-looking statements. Some of the factors that could cause future results to differ materially from those expressed or implied by our forward-looking statements or from historical results, are described in the following section.

### **Item 1A. Risk Factors**

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

#### **Overview of Risk Factors**

We have three business segments, water utility, electric utility and contracted services, each of which are subject to different risks as further discussed below. We are also subject to risks frequently encountered by businesses of our size.

#### **Regulated Water and Electric Utility Operations**

GSWC’s and BVESI’s revenues depend substantially on the rates and charges we are permitted to recover from our customers and the timing of that recovery as authorized by the CPUC. Decisions of the CPUC could also result in impairment charges and customer refunds, and delays in recovering costs in rates. Some of the factors impacting our ability to obtain rate recovery on a timely basis include opposition to rate increases arising out of increased costs for replacing aging infrastructure and increased costs associated with addressing climate change risks, such as drought and wildfires in California, costs incurred in connection with complying with water quality regulations, costs incurred in connection with complying with the COVID-19 pandemic, and costs incurred in connection with obtaining and complying with franchise agreements with local governmental agencies and costs of obtaining permits from local, state and federal governmental agencies. There may also be increased customer opposition to rate increases due to customer dissatisfaction with conservation rate structures and public safety power shutdowns.

Our water and electric utility services are provided in California. As a result, our financial results are largely subject to political, water supply, labor, utility cost and regulatory risks, economic conditions, natural disasters (which may increase as a result of climate change), and other risks affecting California businesses. Our assets are also subject to condemnation in California.

### ***Contract Services Operations***

All of our utility privatization contract services are provided to the U.S. government pursuant to the terms of firm, fixed-price contracts subject to annual economic price adjustments. These contracts may be terminated or services suspended at any time for convenience of the government. We are subject to penalties for failure to conform or comply with U.S. government regulations and the terms of our contracts, and may be suspended or debarred for such failure to comply. The fees that we may charge are adjusted annually and in response to our requests for equitable adjustments. We have experienced delays in obtaining price and equitable adjustments, as well as delays in being paid by the U.S. government.

We are also responsible for complying with water quality and wastewater quality regulations on military bases.

We compete with other companies in bidding on providing utility services on military bases. We submit bids on new U.S. government contracts for military bases based on estimates of cost and potential profit. Our estimates and judgment are important, for in the event we overpay to obtain a contract, we could incur losses on it.

### ***Other Business Risks***

We may be subject to financial losses, penalties and other liabilities if we fail to operate and maintain safe work sites, equipment and facilities, including losses, damages, penalties and other liabilities arising from wildfires, other natural disasters and terrorist activities. We may not be able to recover all these losses from insurance or from ratepayers or may experience delays in obtaining recovery for these losses.

We are also subject to other business risks typical of our business, including:

- Security risks, data protection and cyber-attacks that could disrupt our operations, increase our expenses, result in liabilities to third parties and damage to our reputation;
- Failure to attract, train, develop and transition key employees with the necessary skills to replace employees who are retiring or otherwise terminate employment or to fill new positions needed to respond to the increase in public utility and environmental regulations;
- Failure to make accurate estimates about financing and accounting matters, and in filing requests for rate increases with the CPUC or requests for price adjustments with the U.S. government or in bids on military privatization contracts;
- Our ability to finance the significant capital expenditures required by our businesses, which could be adversely impacted by general economic and market conditions;
- Changes in accounting, public utility, environmental and tax laws and regulations impacting our business;
- Our inability to comply with debt covenants in our debt agreements; and
- Final determination of our income tax liability by the federal and applicable state governments.

As a holding company, AWR is dependent upon dividends from its subsidiaries to pay dividends to its shareholders. The ability of its subsidiaries to pay dividends is dependent upon compliance with state laws governing the payment of dividends and the terms of the debt agreements with the applicable subsidiary.

### ***Climate Change***

Climate change has resulted in increased frequency and duration of droughts, potential degradation of water quality, and changes in demand for services. More frequent and extended California drought conditions may cause increased stress on surface water supplies and groundwater basins, as well as allocations of water from the State Water Project and the Colorado River. Wholesale water suppliers may not have adequate supply during extended periods of drought, which may result in increases in prices for water delivered to us. In addition, GSWC could experience an increased use of reclaimed or recycled water by GSWC customers, in lieu of GSWC supplying potable water to these customers. Reclaimed water generally has lower tariff rates than potable water. Prolonged droughts may also result in state-ordered mandatory or voluntary conservation efforts by customers, changes in customer conservation patterns and imposition of new regulations impacting such things as landscaping and irrigation patterns.

These drought conditions have contributed to increases in wildfires, which has resulted in new California legislation requiring electric utilities to adopt and implement wildfire safety and mitigation plans. BVESI is incurring increased capital expenditures related to the creation and implementation of these plans. We anticipate that the costs of capital improvements necessary to implement this program will continue to increase. BVESI is also required to implement a public safety power shut-off program during high wildfire threat conditions. Shut-offs can reduce BVESI's liquidity and decrease customer satisfaction. Abnormal weather patterns created by climate change can also impact electricity demand at BVESI. The demand for electricity at our electric segment is greatly affected by winter snow levels. An increase in winter snow levels reduces the

use of snow making machines at ski resorts in the Big Bear area and, as a result, reduces our electric revenues. Likewise, unseasonably warm weather during a skiing season may result in temperatures too high for snow making conditions, which also reduces our liquidity. Furthermore, potential future legislation efforts to ban gas powered power plants as a response to climate change may require us to replace our current 8.4 MW natural gas powered generator before its useful life is completed.

More extreme weather events which may result in flash flooding, mudslides and high winds which could damage our infrastructure and our customers' and/or suppliers' property as a result of climate change may increase our cost of maintaining our infrastructure, our ability to provide water or electric service and the demand of our services from customers whose property has been damaged. The cost of damage to our infrastructure may be somewhat mitigated if the CPUC permits us to establish a catastrophic emergency memorandum account enabling us to recover the costs incurred.

### **Risks Associated with Regulated Public Utility and Contracted Services Operations**

*Our businesses are heavily regulated and, as a result, decisions by regulatory agencies or the U.S. government can significantly affect our businesses*

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

Regulatory decisions affecting GSWC and/or BVESI may also impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses, may overturn past decisions used in determining our revenues and expenses, and could result in impairment charges and customer refunds. On August 27, 2020, the CPUC issued a final decision in the first phase of the CPUC's Order Instituting Rulemaking evaluating the low income ratepayer assistance and affordability objectives contained in the CPUC's 2010 Water Action Plan, which also addressed the continued use of the Water Revenue Adjustment Mechanism ("WRAM") and the Modified Cost Balancing Account ("MCBA") by California water utilities. Based on the final decision, any general rate case application filed by GSWC and the other California water utilities after the August 27, 2020 effective date of this decision, may not include a proposal to continue the use of the WRAM or MCBA, but may instead include a proposal to use a limited price adjustment mechanism (the Monterey-Style WRAM) and an incremental supply cost balancing account. As a result of the August 2020 decision, the discontinuation of the WRAM and MCBA for GSWC would be effective for years after 2024. However, on September 30, 2022, the governor of California signed Senate Bill ("SB") 1469. Effective January 1, 2023, SB 1469 allows Class A water utilities, including GSWC, to continue requesting the use of the WRAM in their next general rate case. With the passage of SB 1469, GSWC will be able to request the continued use of the WRAM in its next general rate case to be filed in 2023 that will establish new rates for the years 2025 – 2027. GSWC's request to continue using the WRAM in its next general rate case will be subject to CPUC approval.

Management continually evaluates the anticipated recovery of regulatory assets, settlement of liabilities and revenues subject to refund and provides for allowances and reserves as deemed necessary. In the event that our assessment of the probability of recovery or settlement through the ratemaking process is incorrect, we will adjust the associated regulatory asset or liability to reflect the change in our assessment or any regulatory disallowances. A change in our evaluation of the probability over the recovery of regulatory assets including a future disallowance of previously granted regulatory mechanisms, or a regulatory disallowance of all or a portion of our costs could have a material adverse effect on our financial results.

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

### ***Changes in laws, regulations and policies of regulatory agencies can significantly affect our business***

Regulatory agencies may also change their rules and policies, which may adversely affect our profitability and cash flows. Changes in policies of the U.S. government may also adversely affect one or more of our Military Utility Privatization Subsidiaries. In certain circumstances, the U.S. government may be unwilling or unable to appropriate funds to pay costs mandated by changes in rules and policies of federal or state regulatory agencies. The U.S. government may disagree with the

increases that we request and may delay approval of requests for equitable adjustment or economic price adjustments, which could adversely affect our anticipated rates of return at our contracted services business.

We may also be subject to fines or penalties if a regulatory agency or the U.S. government determine that we have failed to comply with laws, regulations or orders applicable to our businesses, unless we successfully appeal such an adverse determination. Regulatory agencies may also disallow recovery of certain costs if they determine they may no longer be recovered in rates, or if audit findings determine that we have failed to comply with our policies and procedures for procurement or other practices.

We may experience delays in receiving payments for services rendered in military bases due to delays in Congress appropriation bills or other factors affecting the available funds to pay contractors.

***Our liquidity and earnings may be adversely affected by maintenance costs***

Some of our infrastructure in California is aging. We have experienced leaks and mechanical problems in some of these older systems. In addition, infrastructure maintenance expenses are affected by labor and material costs and more stringent environmental regulations. Our electrical systems have also required upgrades due to aging and new wildfire safety and other compliance requirements. While we spend significant amounts on maintenance each year, these costs can increase substantially and unexpectedly. There could be an increase in infrastructure damage if California experiences more extreme weather events resulting in damage to our property.

We include estimated increases in maintenance costs for future years in each water and electric general rate case filed by GSWC and BVESI, respectively, for possible recovery. To the extent that these estimates understate our actual costs, we may be unable to recover all maintenance costs in rates.

***Our assets at our regulated utilities are subject to condemnation***

Municipalities and other governmental subdivisions may, in certain circumstances, seek to acquire certain of our assets through eminent domain proceedings. It is generally our practice to contest these proceedings, which may be costly and may temporarily divert the attention of management from the operation of our business. If a municipality or other governmental subdivision succeeds in acquiring our assets, there is a risk that we will not receive adequate compensation for the assets taken or be able to recover all charges associated with the condemnation of such assets. In addition, we would no longer be entitled to any portion of the revenues generated from the use of such assets.

***Our costs of obtaining and complying with the terms of franchise agreements are increasing***

Cities and counties in which GSWC and BVESI operate have granted them franchises to construct, maintain and use pipes, wires and appurtenances in or along public streets and rights of way. The costs of obtaining, renewing and complying with the terms of these franchise agreements have been increasing as cities and counties attempt to regulate our operations within the boundaries of the city or unincorporated areas of the counties in which we operate. Our regulated utilities may also be required from time to time to relocate existing infrastructure in order to accommodate local infrastructure improvement projects. Cities and counties have also been imposing new fees on our operations, including pipeline abandonment fees and road-cut or other types of capital improvement fees. At the same time, there is increasing opposition from consumer groups to rate increases that may be necessary to compensate GSWC and BVESI for the increased costs of regulation by local governments. These trends may adversely affect our ability to recover in rates the costs of providing water and electric services and to efficiently manage capital expenditures and operating and maintenance expenses within CPUC-authorized levels.

We have also experienced instances of increased costs and delays in obtaining permits that we need in order to install, maintain, repair, and replace some of our aging water and electric utility infrastructure and upgrades needed to comply with changes in laws and regulations or otherwise necessary to harden our infrastructure as a result of drought, wildfires and increases in the frequency and duration of more extreme weather events due to climate change.

***Adverse publicity and reputational risks can lead to increased regulatory oversight or sanctions***

As a utility company, we have a large customer base and are therefore, subject to public criticism regarding, among other things, the quality and reliability of our water and electricity services, and the accuracy, timeliness and format of bills that are provided to our customers for such services. Adverse publicity and negative customer sentiment may cause regulatory authorities, including the CPUC, and other governing bodies to view us unfavorably and cause us to be susceptible to increased oversight and more stringent regulations and economic requirements.



**Risks Associated with Health, Safety and Liability Matters**

*The outbreak of COVID-19 and its impact on business and economic conditions could negatively affect our financial condition.*

The COVID-19 outbreak, the resulting pandemic, and the impact on the economy and financial markets could adversely affect the Company's financial condition. We have continued our operations given that water, wastewater, and electric utility services are deemed essential, and have implemented health and safety measures in accordance with the guidance provided by federal, state, and local health authorities and other government officials. Although the spread of COVID-19 has lessened, we may continue to experience impacts from the pandemic that include:

- an adverse impact on our business activities due to the ongoing shortage of skilled trade labor as well as engineering and professional staff;
- an increase in costs as a result of our emergency measures, delayed payments from our customers and uncollectible accounts as a result of the impact on our customers' ability to pay bills;
- impact to our liquidity position and cost of and ability to access funds from financial institutions and capital markets;
- an adverse impact on the value of our pension and retirement assets;
- increased customer dissatisfaction due to an increase in customer wait times resulting from a rise in customer calls, and general anxiety due to personal circumstances arising from the pandemic; and
- supply chain disruptions and delays which impacts our ability and that of our subcontractors to build and maintain our infrastructure on a timely basis.

The continued effects of the pandemic has impacted and may continue to impact supply chains with restrictions and limitations on business activities, impacts to labor shortages, capacity constraints, disruptions and delays. These issues may continue to place a strain on supply chains to sufficiently meet demand of the materials and supplies necessary to complete capital expenditure projects at our regulated utilities, or construction projects at our contracted services segment. While we may purchase materials and supplies upfront when appropriate, there can be no assurance that our efforts will prevent delays or disruptions to our capital investments or construction projects.

Current supply chain challenges are driving price increases for materials commonly used for construction projects. Combined with rising labor costs, the current inflationary market is leading to an increase in total cost for our capital expenditure projects. Our regulated utilities update costs as part of general rate case proceedings, and ASUS updates prices annually through economic price adjustments. However, until we receive increased funding to offset higher costs, our liquidity may be negatively impacted.

The CPUC has authorized GSWC and BVESI to track incremental costs, including bad debt expense in excess of what is included in their respective revenue requirements, incurred as a result of the pandemic in COVID-19 emergency-related memorandum accounts to be filed with the CPUC for future recovery. Emergency-type memorandum accounts are well-established cost recovery mechanisms authorized as a result of a state/federal declared emergency, and are therefore recognized as regulatory assets for future recovery.

Also, as a result of the economic effects from the pandemic, there has been a trend of elevated workforce departures and competition for talent in the United States. While we expect to see continued competition for workforce talent, Registrant has not experienced the level of increases to workforce departure that many companies in the United States has been contending with during the year.

*Our liquidity and earnings may be adversely affected by wildfires*

It is possible that wildfires may occur more frequently, be of longer duration or impact larger areas as a result of drought-damaged plants and trees, lower humidity or higher winds that may occur as result of changing weather patterns. Our liquidity, earnings and operations may be materially adversely affected by wildfires. We may be required to (i) incur greater costs to relocate lines or increase our trimming of trees and other plants near our electric facilities to avoid wildfires, (ii) make significant additional capital expenditures to fund the projects in BVESI's wildfire and safety mitigation plans, and (iii) bear the costs of damages to property or injuries to the public if it is determined that our power lines or other electrical equipment was a cause of such damages or injuries. In addition, wildfires may result in reduced demand if structures are destroyed or unusable following a wildfire, and may adversely affect our ability to provide water or electric service in our service areas due to public safety power shutdowns or any of our water or electric utility infrastructure is damaged by a wildfire.

Losses by insurance companies resulting from wildfires in California have caused insurance coverage for wildfire risks to become more expensive and coverage could become unavailable on reasonable terms, and our insurance may be inadequate

to recover all our losses incurred in a wildfire. We might not be allowed to recover in our rates any increased costs of wildfire insurance or the costs of any uninsured wildfire losses.

Electric utilities in California are authorized to shut off power for public safety reasons, such as during periods of extreme fire hazard, if the utility reasonably believes that there is an imminent and significant risk that strong winds may topple power lines or cause vegetation to come into contact with power lines leading to increased risk of fire. Shut-offs can reduce BVESI's liquidity and decrease customer satisfaction.

These shut-offs can also adversely affect GSWC's water utility operations if the electric utilities that provide electric service to GSWC's water operations shut off power lines that deliver electricity to GSWC's water plant and equipment, thereby adversely affecting its ability to provide water service to its customers.

*We may be held strictly liable for damages to property caused by our equipment even if we are not negligent*

Utilities in California may be held strictly liable for damages caused by their property, such as mains, fire hydrants, power lines and other equipment, even though they were not negligent in the operation and maintenance of that property, under a doctrine known as inverse condemnation. Our liquidity, earnings and operations may be adversely affected if we are unable to recover the costs of paying claims for damages caused by the non-negligent operation and maintenance of our property from customers or through insurance.

*We may be subject to financial losses, penalties and other liabilities if we fail to maintain safe work sites, equipment or facilities*

Our safety record is critical to our reputation. We maintain health and safety standards to protect our employees, customers, vendors and the public. Although we aim to comply with such health and safety standards, it is unlikely that we will be able to avoid all accidents or other events resulting in damage to property or the public.

Our business sites, including construction and maintenance sites, often put our employees and others in close proximity with large pieces of equipment, moving vehicles, pressurized water, chemicals and other regulated materials. On many sites, we are responsible for safety and, accordingly, must implement safety procedures. If we fail in any respect to implement such procedures or if the procedures we implement are ineffective or are not followed by our employees or others, our employees and others may be injured or die. Unsafe work sites also have the potential to increase our operating costs. Any of the foregoing could result in financial losses, which could have a material adverse impact on our business, financial condition, and results of operations.

Our operations involve the handling and storage of hazardous chemicals that, if improperly handled, stored or disposed of, could subject us to penalties or other liabilities. We are also subject to regulations dealing with occupational health and safety. Although we maintain functional employee groups whose primary purpose is to ensure that we implement effective health, safety, and environmental work procedures throughout our organization, including construction sites and maintenance sites, a failure to comply with such regulations in any respect could subject us to liability.

*The generation, transmission and distribution of electricity are dangerous and involve inherent risks of damage to private property and injury to employees and the general public*

Electricity is dangerous for employees and the general public should they come in contact with electrical current or equipment, including through downed power lines, sparking during high-wind events or equipment malfunctions. Injuries and property damage caused by such events may subject BVESI to significant liabilities that may not be covered or fully covered by insurance. Additionally, the CPUC has delegated to its staff the authority to issue citations, which carry a fine of \$50,000 per-violation per day, to electric utilities subject to its jurisdiction for violations of safety rules found in statutes, regulations, and the General Orders of the CPUC.

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

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

We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities. Generally, our insurance policies cover property, workers' compensation, general liability, automobile liability, and other risks. Insurance coverage may not cover certain claims involving punitive damages. Each policy includes deductibles or self-insured retentions and policy limits for covered claims. Our insurance policies also contain exclusions and other limitations that may not cover our potential liabilities. Furthermore, due to insurance market conditions resulting in tighter

underwriting and increased premiums along with reductions in capacity, we have experienced increased costs and difficulties in obtaining certain insurance coverages, particularly along the general liability, umbrella and cyber insurance lines. We may experience further increased insurance costs and/or coverage reductions in future years. As a result, we may sustain losses that exceed or that are excluded from our insurance coverage or for which we are not insured.

Uninsured losses and increases in the cost of insurance may not be recoverable or fully recoverable in customer rates. A loss which is not insured or not fully insured or cannot be recovered in customer rates could materially affect our financial condition and results of operations.

*We operate in areas subject to natural disasters*

We operate in areas that are prone to earthquakes, fires, mudslides, hurricanes, tornadoes, high winds, flooding or other natural disasters. While we maintain insurance policies to help reduce our financial exposure, a significant seismic event in southern California, where our regulated water and electric operations are concentrated, wildfires or other natural disasters in any of the areas that we serve could adversely impact our ability to deliver water and electricity or provide wastewater service, and adversely affect our costs of operations. With respect to GSWC and BVESI, the CPUC has historically allowed utilities to establish a catastrophic emergency memorandum account ("CEMA") to potentially recover such incremental costs not covered in rates. With respect to the Military Utility Privatization Subsidiaries, costs associated with responding to natural disasters have been recoverable through requests for equitable adjustment.

*Our operations may be the target of terrorist activities*

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

**Water Quality Regulatory Risks**

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

Our capital and operating costs at GSWC may increase substantially as a result of increases in environmental regulation arising from increases in the cost of upgrading and building new water treatment plants, disposing of residuals from our water treatment plants, handling and storing hazardous chemicals, compliance-monitoring activities and securing alternative supplies when necessary. GSWC may be able to recover these costs from customers through the ratemaking process. We may also be able to recover these costs from certain third parties under settlement and contractual arrangements. Our capital and operating costs may also increase as a result of changes in laboratory detection capabilities and drinking water notification and response levels for certain substances, such as perfluoroalkyl substances ("PFAS") used to make certain fabrics and other materials, certain fire suppression agents and used in various industrial processes.

*Our operating costs may increase as a result of groundwater contamination*

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

Our ability to recover these types of costs depends upon a variety of factors, including approval of rate increases, the willingness of potentially responsible parties to settle litigation and otherwise address the contamination, and the extent and magnitude of the contamination. We may recover costs from certain third parties that may be responsible, or potentially responsible, for groundwater contamination. However, we often experience delays in obtaining recovery of these costs and incur additional costs associated with seeking recovery from responsible or potentially responsible parties, which may adversely impact our liquidity. In some events, we may be unable to recover all of these costs from third parties due to the inability to identify the potentially responsible parties, the lack of financial resources of responsible parties or the high litigation costs associated with obtaining recovery from responsible or potentially responsible parties.

We can give no assurance regarding the adequacy of any such recovery to offset the costs associated with contamination or the cost of recovery of any legal costs. To date, the CPUC has permitted us to establish memorandum accounts for potential recovery of these types of costs when they have arisen.

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

## **Water Supply Risks**

### *The adequacy of our water supplies depends upon weather and a variety of other uncontrollable factors*

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

- rainfall, basin replenishment, flood control, snow pack levels in California and the West, reservoir levels and availability of reservoir storage;
- availability of Colorado River water and imported water from the State Water Project;
- the amount of usable water stored in reservoirs and groundwater basins;
- the amount of water used by our customers and others;
- water quality;
- legal limitations on production, diversion, storage, conveyance and use; and
- climate change.

More frequent and extended California drought conditions and changes in weather patterns cause increased stress on surface water supplies and groundwater basins. In addition, low or no allocations of water from the State Water Project and court-ordered pumping restrictions on water obtained from the Sacramento-San Joaquin Delta decrease or eliminate the amount of water that the Metropolitan Water District of Southern California ("MWD") and other state water contractors are able to import from northern California.

We have implemented tiered rates and other practices, as appropriate, in order to encourage water conservation. We have also implemented programs to assist customers in complying with water usage reductions. Over the long term, we are acting to secure additional supplies, which may include supplies from desalination and increased use of reclaimed water, where appropriate and feasible. We cannot predict the extent to which these efforts to reduce stress on our water supplies will be successful or sustainable, or the extent to which these efforts will enable us to continue to satisfy all of the water needs of our customers. Water shortages at GSWC may:

- adversely affect our supply mix, for instance, by causing increased reliance upon more expensive water sources;
- adversely affect our operating costs, for instance, by increasing the cost of producing water from more highly contaminated aquifers or requiring us to transport water over longer distances, truck water to water systems or adopt other emergency measures to enable us to continue to provide water service to our customers;
- result in an increase in our capital expenditures over the long term, for example, by requiring future construction of pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of our customers, and other facilities to conserve or reclaim water;
- adversely affect the volume of water sold as a result of such factors as mandatory or voluntary conservation efforts by customers, changes in customer conservation patterns, recycling of water by customers and imposition of new regulations impacting such things as landscaping and irrigation patterns;
- adversely affect aesthetic water quality if we are unable to flush our water systems as frequently due to water shortages or drought restrictions; and
- result in customer dissatisfaction and harm to our reputation if water service is reduced, interrupted or otherwise adversely affected as a result of drought, water contamination or other causes.

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

We obtain our water supplies for GSWC from a variety of sources, which vary among our water systems. Certain systems obtain all of their supply from water that is pumped from aquifers within our service areas; some systems purchase all of their supply from wholesale suppliers; some systems obtain their supply from treating surface water sources; and other systems obtain their supply from a combination of wells, surface water sources and/or wholesale suppliers. The cost of obtaining these supplies varies, and overall costs can be impacted as use within a system varies from time to time. As a result, our cost of providing, distributing and treating water for our customers' use can vary significantly.

Furthermore, imported water wholesalers, such as MWD, may not always have an adequate supply of water to sell to us. Wholesale water suppliers may increase their prices for water delivered to us based on factors that affect their operating costs. Purchased water rate increases are beyond our control.

GSWC has implemented a modified supply cost balancing account, the MCBA, to track and recover costs from supply mix changes and rate changes by wholesale suppliers, as authorized by the CPUC. However, cash flows from operations can be

significantly affected since much of the balance we recognize in the MCBA is collected from or refunded to customers primarily through surcharges or surcredits, respectively, generally over twelve- to twenty-four-months.

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

Our water utility business is heavily dependent upon revenue generated from rates charged to our customers based on the volume of water used. The rates we charge for water are regulated by the CPUC and may not be adequately adjusted to reflect changes in demand. Declining usage also negatively impacts our long-term operating revenues if we are unable to secure rate increases or if growth in the customer base does not occur to the extent necessary to offset per-customer usage decline.

Conservation by all customer classes at GSWC is a top priority. However, customer conservation will result in lower volumes of water sold. We may experience a decline in per-customer water usage due to factors such as:

- conservation efforts to reduce costs;
- drought conditions resulting in additional water conservation;
- the use of more efficient household fixtures and appliances by customers to save water;
- voluntary or mandatory changes in landscaping and irrigation patterns;
- recycling of water by our customers; and
- mandated water-use restrictions.

These types of changes may result in permanent decreases in demand even if our water supplies are sufficient to meet higher levels of demand after a drought ends. In addition, governmental restrictions on water usage during drought conditions may result in a decreased demand for water, even if our sources of supply are sufficient to serve our customers during such drought conditions.

We implemented the CPUC-approved WRAM at GSWC, which has the effect of stabilizing revenues at the adopted level thereby reducing the potential adverse earnings impact of our customers' conservation efforts. However, cash flows from operations can be significantly affected since much of the balance we recognize in the WRAM account is collected from or refunded to customers generally over twelve-, eighteen- or twenty-four-month periods.

**Electric Segment Operations Risks**

*Our electric segment operates in a high wildfire risk area*

BVESI is required to adopt and implement a wildfire safety and mitigation plan that is submitted periodically to, and subject to the approval of, the CPUC. The recovery of costs incurred to implement this plan are not approved by the CPUC at the time of its approval of the wildfire mitigation plan, but will only be approved by the CPUC in a subsequent general rate case. We anticipate that the costs of capital improvements necessary to implement this program will increase substantially.

BVESI is also required to implement a public safety power shut-off program during high wildfire threat conditions. The CPUC may assess penalties if BVESI shuts-down power to its customers and the CPUC determines that the shutdown was not reasonably necessary in the circumstances.

BVESI has also obtained a safety certificate, which must be renewed annually by the CPUC. Even with an approved safety certificate, BVESI could be found liable for deaths, injuries and property damage if BVESI's electric equipment is found to have caused a catastrophic wildfire. BVESI may not be able to recover the costs of all liabilities from such a wildfire from insurance or from ratepayers.

*Our liquidity may be adversely affected by increases in electricity and natural gas prices in California*

We purchase most of the electric energy sold to customers in our electric customer service area from others under purchased power contracts. In addition to purchased power contracts, we purchase additional energy from the spot market to meet peak demand and following the expiration of purchased power contracts if there are delays in obtaining CPUC authorization of new purchase power contracts. We may sell surplus power to the spot market during times of reduced energy demand. As a result, our cash flows may be affected by increases in spot market prices of electricity purchased and decreases in spot market prices for electricity sold. However, BVESI has implemented a CPUC-approved supply-cost balancing account to mitigate the impact to earnings from fluctuations in supply costs.

Unexpected generator downtime at our 8.4 megawatt natural-gas-fueled generator or a failure to perform by any of the counterparties to our electric and natural gas purchase contracts could further increase our exposure to fluctuating natural gas and electricity prices.

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

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

We are required to procure a portion of our electricity for BVESI from renewable energy resources to meet the CPUC's renewable procurement requirements. We have an agreement with a third party to purchase renewable energy credits, which enables us to meet these requirements through 2023. In the event that the third party fails to perform in accordance with the terms of the agreement, we may not be able to obtain sufficient resources to meet the renewable procurement requirements. We may be subject to fines and penalties by the CPUC if it determines that we are not in compliance with the renewable resource procurement rules.

**Utility Privatization Contract Risks**

*Our contracts for servicing military bases create certain risks that are different from our public utility operations*

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

Our contract pricing is based on a number of assumptions, including assumptions about the condition and amount of infrastructure at the military bases, prices and availability of labor, equipment and materials. We may be unable to recover all costs if any of these assumptions are inaccurate or if all costs incurred in connection with performing the work were not considered. Our contracts are also subject to annual economic price adjustments or other changes permitted by the terms of the contracts. Prices are also subject to equitable adjustment based upon changes in circumstances, laws or regulations and service-requirement changes to the extent provided in each of the contracts.

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

Certain payments under these contracts are subject to appropriations by Congress. We may experience delays in receiving payment or delays in price adjustments due to canceled or delayed appropriations specific to our projects, reductions in government spending for the military generally or military-base operations specifically or other delays in Congress approving appropriations. Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, budget constraints, the timing and amount of tax receipts, government shutdowns and the overall level of government expenditures.

*Our contracts for the construction of infrastructure improvements on military bases create risks that are different from those of our public utility operations and maintenance activities*

We have entered into contract modifications with the U.S. government and agreements with third parties for the construction of new water and/or wastewater infrastructure at the military bases on which we operate. Most of these contracts are firm fixed-price contracts. Under firm fixed-price contracts, we will benefit from cost savings, but are generally unable (except for changes in scope or circumstances approved by the U.S. government or third party) to recover any cost overruns to the approved contract price. Under most circumstances, the U.S. government or third party has approved increased-cost change orders due to changes in scope of work performed.

We generally recognize contract revenues from these types of contracts over time using input methods to measure progress towards satisfying a performance obligation. The measurement of performance over time is based on cost incurred relative to total estimated costs, or the physical completion of the construction projects. The earnings or losses recognized on individual contracts are based on periodic estimates of contract revenues, costs and profitability as these construction projects progress.

We establish prices for these types of firm fixed-price contracts and the overall 50-year contract taken as a whole, based, in part, on cost estimates that are subject to a number of assumptions, including assumptions regarding future economic

conditions. If these estimates prove inaccurate or circumstances change, cost overruns could have a material adverse effect on our contracted business operations and results of operations.

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

Entering into contracts with the U.S. government subjects us to a number of operational and compliance risks over our performance of contracted services on military bases. We are periodically audited or reviewed by the Defense Contract Auditing Agency (“DCAA”), the Defense Contract Management Agency (“DCMA”), the Department of Labor (“DOL”), the Defense Logistics Agency Energy (“DLAE”), and/or the Department of Justice (“DOJ”) for compliance with federal acquisition regulations, cost-accounting standards and other laws, regulations and standards that are not applicable to the operations of GSWC or BVESI. During the course of these audits/reviews, the U.S. government may question our incurred project costs or the manner in which we have accounted for such costs and recommend to our U.S. government administrative contracting officer that such costs be disallowed. If there is a dispute with the U.S. government regarding performance under these contracts or the amounts owed to us, the U.S. government may delay, reject or withhold payment, delay price adjustments or assert its right to offset damages against amounts owed to us. If we are unable to collect amounts owed to us on a timely basis or the U.S. government asserts its offset rights, profits and cash flows could be adversely affected.

Moreover, we are subject to potential government investigations of our business practices and compliance with government procurement statutes and security regulations. If we are charged with wrongdoing as a result of an investigation, or if we fail to comply with the terms of one or more of our U.S. government contracts, other agreements with the U.S. government or U.S. government statutes and regulations, our existing contracts could be terminated or we could be suspended or barred from future U.S. government contracts for a period of time, and be subject to possible damages, fines and penalties as well as damage to our reputation in the water and wastewater industry, which could have a material adverse effect on our results of operations and cash flows.

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

We rely, to some extent, on subcontractors to assist us in the operation and maintenance of the water and wastewater systems at military bases. The failure of any of these subcontractors to perform services for us in accordance with the terms of our contracts with the U.S. government could result in the termination of our contract to provide water and/or wastewater services at the affected base(s), and/or a loss of revenues, or increases in costs, to correct a subcontractor’s performance failures.

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

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

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

*We may not be fully reimbursed for all of our construction costs or may only receive payment on a delayed basis*

Unlike GSWC and BVESI, who recover their capital investments from customers over the life of the assets through annual depreciation and earn a return on such investments through the ratemaking process, ASUS is reimbursed for the cost of ongoing renewal and replacement construction projects plus a profit through the collection of a monthly cash stream under each of the contracts with the U.S. government. ASUS also receives funding from the U.S. government for initial and other new construction projects at the military bases it serves that, in many cases, are outside the scope of contracts with the U.S. government and are granted through firm-fixed contract modifications. Our Military Utility Privatization Subsidiaries expect to continue incurring significant construction costs. Reimbursement by the U.S. government for these construction costs may not

be fully reimbursable if the costs incurred are greater than the amounts estimated and approved by the U.S. government, or payments may be delayed awaiting government funding and processing, which could significantly affect our cash flows from operations.

### **Other Contracted Services Segment Risks**

#### *Risks associated with wastewater systems are different from those of our water distribution operations*

The wastewater-collection-system operations of our ASUS subsidiaries providing wastewater services on military bases are subject to substantial regulation and involve significant environmental risks. If collection, treatment or disposal systems fail, overflow or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages. The cost of addressing such damages may not be recoverable. This risk is most acute during periods of substantial rainfall or flooding, which are common causes of sewer overflows and system failures. These risks may be increased as a result of an increase in the duration and frequency of storms due to climate change. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. In the event that we are deemed liable for any damage caused by overflows, our losses may not be recoverable under our contracts with the U.S. government or covered by insurance policies. We may also find it difficult to secure insurance for this business in the future at acceptable rates.

#### *We may have responsibility for water quality at the military bases we serve*

While it is the responsibility of the U.S. government to provide the source of water supply to meet the Military Utility Privatization Subsidiaries' water distribution system requirements under their contracts with the U.S. government, the Military Utility Privatization Subsidiaries, as the water system permit holders for most of the bases they serve, are responsible for ensuring the continued compliance of the provided source of supply with all federal, state and local regulations. We believe, however, that the terms of the contracts between the Military Utility Privatization Subsidiaries and the U.S. government provide the opportunity for us to recover costs incurred in the treatment or remediation of any quality issue that arises from the source of water supply.

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

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

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

We continue to incur additional costs in connection with the expansion of our contract operations associated with the preparation of bids for new contract operations on prospective and existing military bases. Our ability to recover these costs and to earn a profit on our contract operations will depend upon the extent to which we are successful in obtaining new contracts and recovering these costs and other costs from new contract revenues.

#### *We face intense competition for new military privatization contracts*

An important part of our growth strategy is the expansion of our contracted services business through new contract awards to serve additional military bases for the U.S. government. ASUS competes with other investor-owned utilities, municipalities, and other entities for these contracts.

Additionally, the U.S. government periodically reviews the cost and overall effectiveness of the military privatization program. Should these reviews prompt a decision to curtail or eliminate the issuance of solicitations for future military privatization contract awards, the potential for growth in this segment could be negatively impacted.

### **Information Technology Risk Factors**

*We must successfully maintain and/or upgrade our information technology systems as we are increasingly dependent on the continuous and reliable operation of these systems*

We rely on various information technology systems to manage our operations. Such systems require periodic modifications, upgrades and/or replacement, which subject us to inherent costs and risks, including potential disruption of our internal control structure, substantial capital expenditures, additional administrative and operating expenses, retention of sufficiently skilled personnel to implement and operate the new systems, and other risks and costs of delays or difficulties in transitioning to new systems or of integrating new systems into our current systems. In addition, the difficulties with implementing new technology systems may cause disruptions in our business operations and have an adverse effect on our business and operations, if not anticipated and appropriately mitigated.



We rely on our computer, information and communications technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and the monitoring and operation of our treatment, storage and pumping facilities. Our computer and communications systems and operations could be damaged or interrupted by weather, natural disasters, telecommunications failures, cyberattacks or acts of war or terrorism or similar events or disruptions. Any of these or other events could cause system interruption, delays and loss of critical data, or delay or prevent operations and adversely affect our financial results and could result in liabilities not covered by insurance or recoverable in rates for misappropriation of assets or sensitive information, corruption of data and the impact of operational disruptions on our customers.

*Security risks, data protection breaches and cyberattacks could disrupt our internal operations, and any such disruption could increase our expenses, damage our reputation and adversely affect our stock price*

There have been an increasing number of cyberattacks on companies around the world, which have caused operational failures or compromised sensitive corporate or customer data. These attacks have occurred over the internet, through malware, viruses or attachments to e-mails, or through persons inside the organization or with access to systems inside the organization. Although we do not believe that our systems are at a materially greater risk of cyber security attacks than other similar organizations, our information technology systems remain at risk to damage or interruption from:

- supply chain attacks;
- ransomware;
- malware;
- hacking; and
- denial of service actions.

We have implemented security measures and will continue to devote significant resources to improve our security posture to address any security vulnerabilities in an effort to prevent cyberattacks. Despite our efforts, due to the evolving nature of cyberattacks and vulnerabilities, we cannot be assured that a cyberattack will not cause water, wastewater or electric system problems, disrupt service to our customers, compromise important data or systems or result in unintended release of customer or employee information. Moreover, if a security breach affects our systems or results in the unauthorized release of sensitive data, our reputation could be materially damaged. We may not discover any security breach and loss of information for a significant period of time after the security breach. We could also be exposed to a risk of loss or litigation and possible liability. In addition, pursuant to U.S. government regulations regarding cybersecurity of government contractors, we might be subject to fines, penalties or other actions, including debarment, with respect to current contracts or with respect to future contract opportunities. We maintain cybersecurity insurance to provide coverage for a portion of the losses and damages that may result from a security breach, but such insurance is subject to a number of exclusions and may not cover the total loss caused by a breach. Other costs associated with cyber events may not be covered by insurance or recoverable in rates. The market for cybersecurity insurance continues to evolve and may affect the future availability of cyber insurance at reasonable rates.

In addition, we must comply with privacy rights regulations such as The California Consumer Privacy Act (“CCPA”), a state statute that became effective January 1, 2020, which enhances the privacy rights and consumer protections for California residents. Among other things, the CCPA establishes statutory damages for victims of data security breaches, and provides additional rights for consumers to obtain their data from any business that has their personally identifying information. Any actual or perceived failure to comply with the CCPA could lead to investigations, claims, and proceedings by governmental entities and private parties, damages for breach, and other significant costs, penalties, and other liabilities, as well as harm to our reputation.

#### **Human Capital Management and Supply Risks**

*Failure to attract, retain, train, motivate, develop and transition key employees could adversely affect our business*

In order to be successful, we must attract, retain, train, motivate, and develop key employees, including those in managerial, operational, financial, regulatory, business-development and information-technology support positions. Our regulated business and contracted services operations are complex. Attracting and retaining high quality staff allows us to minimize the cost of providing quality service. In order to attract and retain key employees in a competitive marketplace, we must provide a competitive compensation package and be able to effectively recruit qualified candidates. This is especially challenging for us since approximately 30% of our employees will be eligible to retire in the next five years. The failure to successfully hire key employees or the loss of a material number of key employees could have a significant impact on the quality of our operations in the short term. Further, changes in our management team may be disruptive to our business, and any failure to successfully transition key new hires or promoted employees could adversely affect our business and results of operations.

*Failure of our employees to maintain required certifications and licenses or to complete required compliance training could adversely impact our ability to operate and maintain our utility systems and provide services to our customers*

Many of our employees must have specialized certifications and licenses in order to perform their duties and periodically complete required compliance training. Our business could be adversely affected if our employees do not maintain their certifications and licenses or we are unable to attract employees with the necessary certifications and licenses.

#### **Other Business Risk Factors**

*The accuracy of our judgments and estimates about financial and accounting matters will impact our operating results and financial condition*

The quality and accuracy of estimates and judgments used have an impact on our operating results and financial condition. If our estimates are not accurate, we will be required to make an adjustment in a future period. We make certain estimates and judgments in preparing our financial statements regarding, among others:

- timing of recovering WRAM and MCBA regulatory assets;
- amounts to set aside for uncollectible accounts receivable, inventory obsolescence and uninsured losses;
- our legal exposure and the appropriate accrual for claims, including general liability and workers' compensation claims;
- future costs and assumptions for pensions and other post-retirement benefits;
- regulatory recovery of deferred items; and
- possible tax uncertainties.

*Market conditions and demographic changes may adversely impact the value of our benefit plan assets and liabilities*

Market factors can affect assumptions we use in determining funding requirements with respect to our pension and other post-retirement benefit plans. For example, a relatively modest change in our assumptions regarding discount rates can materially affect our calculation of funding requirements. To the extent that market data compels us to reduce the discount rate used in our assumptions, our benefit obligations could materially increase, which could adversely affect our financial position and cash flows. Further, changes in demographics, such as increases in life expectancy assumptions may also increase the funding requirements of our obligations related to the pension and other post-retirement benefit plans.

Market conditions also affect the values of the assets that are held in trusts to satisfy significant future obligations under our pension and other post-retirement benefit plans. These assets are subject to market fluctuations, which may cause investment returns to fall below our projected rates of return. A decline in the market value of our pension and other post-retirement benefit plan assets will increase the funding requirements under these plans if future returns on these assets are insufficient to offset the decline in value. Future increases in pension and other post-retirement costs as a result of the reduced value of plan assets may not be fully recoverable in rates, and our results of operations and financial position could be negatively affected. These risks are mitigated to some extent by the two-way pension balancing accounts authorized by the CPUC, which permits us to track differences between forecasted annual pension expense adopted in water and electric rates and actual pension expenses for future recovery or refund to customers.

*Our business requires significant capital expenditures and our inability to access the capital or financial markets could affect our ability to meet our liquidity needs and long-term commitments, which could adversely impact our operations and financial results*

The utility business is capital intensive. We spend significant sums of money for additions to, or replacement of, our property, plant and equipment at our water and electric regulated utilities. We obtain funds for these capital projects from operations, contributions by developers and others, and refundable advances from developers (which are repaid over a period of time). We also periodically borrow money or issue equity for these purposes. In addition, we have revolving credit facilities that are partially used for these purposes. We cannot provide assurance that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to earn a reasonable rate of return.

As our capital investment program continues to increase, coupled with the elimination of bonus depreciation for regulated utilities due to tax reform, we will need access to external financing more often, which increases our exposure to market conditions. In addition to cash flow from operations, we rely primarily on our credit facilities and long-term private placement notes to satisfy our liquidity needs. Changes in market conditions, including events beyond our control such as recent increases to interest rates, could limit our ability to access capital on terms favorable to us or at all, including credit facilities

with the borrowing capacities needed as well as issuing long-term debt. As a result, the amount of capital available may not be sufficient to meet all our liquidity needs at a reasonable cost at all of our subsidiaries.

*The price of our Common Shares may be volatile and may be affected by market conditions beyond our control*

The trading price of our Common Shares may fluctuate in the future because of the volatility of the stock market and a variety of other factors, many of which are beyond our control. Factors that could cause fluctuations in the trading price of our Common Shares include: changes in interest rates; regulatory developments; general economic conditions and trends; price and volume fluctuations in the overall stock market; actual or anticipated changes or fluctuations in our results of operations; actual or anticipated changes in the expectations of investors or securities analysts; actual or anticipated developments in other utilities' businesses or the competitive landscape generally; litigation involving us or our industry; major catastrophic events, or sales of large blocks of our stock.

*Payment of our debt may be accelerated if we fail to comply with restrictive covenants in our debt agreements*

Our failure to comply with restrictive covenants in our debt agreements could result in an event of default. If the default is not cured or waived, we may be required to repay or refinance the debt before it becomes due. Even if we are able to obtain waivers from our creditors, we may only be able to do so on unfavorable terms.

*AWR is a holding company that depends on cash flow from its subsidiaries to meet its financial obligations and to pay dividends on its Common Shares*

As a holding company, our subsidiaries conduct substantially all operations and our only significant assets are investments in our subsidiaries. This means that we are dependent on distributions of funds from our subsidiaries to meet our debt service obligations and to pay dividends on our Common Shares.

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

*The final determination of our income tax liability may be materially different from our income tax provision*

Significant judgment is required in determining our provision for income taxes. Our calculation of the provision for income taxes is subject to our interpretation of applicable tax laws in the jurisdictions in which we file. In addition, our income tax returns are subject to periodic examination by the Internal Revenue Service and other taxing authorities.

Although we believe our income tax estimates are appropriate, there is no assurance that the final determination of our current taxes payable will not be materially different, either higher or lower, from the amounts reflected in our financial statements. In the event we are assessed additional income taxes, our financial condition and cash flows could be adversely affected.

*Our operations are geographically concentrated in California*

Although we operate water and wastewater facilities in a number of states under our contracted services business, our regulated water and electric operations are concentrated in California, particularly Southern California. As a result, our financial results are largely subject to political, water supply, labor, utility cost and regulatory risks, economic conditions, natural disasters (which may increase as a result of climate change) and other risks affecting California. Our financial results may also be impacted by population growth or decline in our service areas.

**Item 1B. Unresolved Staff Comments**

None.

## **Item 2. Properties**

### **Water Properties**

As of December 31, 2022, GSWC's physical properties consisted of water transmission and distribution systems, which included 2,864 miles of pipeline together with services, meters and fire hydrants, and approximately 450 parcels of land generally less than 1 acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities, including three surface water treatment plants. GSWC also has franchises, easements and other rights of way for the purpose of accessing wells and tanks and constructing and using pipes and appurtenances for transmitting and distributing water. All of GSWC's properties are located in California.

As of December 31, 2022, GSWC owned 242 wells, of which 170 are active operable wells equipped with pumps with an aggregate production capacity of approximately 169 million gallons per day. GSWC has 58 connections to the water distribution facilities of the MWD, and other municipal water agencies. GSWC's storage reservoirs and tanks have an aggregate capacity of approximately 116.6 million gallons. GSWC owns no dams. The following table provides, in greater detail, information regarding the water utility plant of GSWC:

| Pumps |         | Distribution Facilities |          |          | Reservoirs |           |
|-------|---------|-------------------------|----------|----------|------------|-----------|
| Well  | Booster | Mains*                  | Services | Hydrants | Tanks      | Capacity* |
| 242   | 387     | 2,864                   | 263,244  | 26,698   | 143        | 116.6 (1) |

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

(1) GSWC has additional capacity in its Bay Point system, through an exclusive capacity right to use 4.4 million gallons per day from a treatment plant owned by Contra Costa Water District. GSWC also has additional reservoir capacity through an exclusive right-to-use all of one 8 million gallon reservoir, one-half of another 8 million gallon reservoir, and one-half of a treatment plant's capacity, all owned by Three Valleys Municipal Water District.

### **Electric Properties**

BVESI's properties are located in the Big Bear area of San Bernardino County, California. As of December 31, 2022, BVESI owned and operated approximately 87.80 miles of overhead 34.5 kilovolt (kv) sub-transmission lines (8.96 circuit miles are insulated), 6.49 miles of underground 34.5 kv sub-transmission lines, 492.17 miles of overhead 4.16 kv or 2.4 kv distribution lines (12.15 circuit miles are insulated), 113.57 miles of underground cable, 13 sub-stations and a natural gas-fueled 8.4 MW peaking generation facility. BVESI also has franchises, easements and other rights of way for the purpose of constructing and using poles, wires and other appurtenances for transmitting electricity.

### **Adjudicated and Other Water Rights**

GSWC owns groundwater and surface water rights in California. Groundwater rights are further subject to classification as either adjudicated or unadjudicated rights. Adjudicated rights have been established through comprehensive litigation in the courts, and the annual extraction quantities and use of the adjudicated rights are often subject to the provisions of the judgment for that particular groundwater basin. Additionally, as a result of the adjudication, many of these groundwater basins are managed by a watermaster that is charged with enforcing the provisions of the judgment, which may include determining operating safe yields based on the water supply conditions of the groundwater basin.

GSWC actively manages its adjudicated groundwater rights portfolio with the goal of optimizing and making this source of supply sustainable. Unadjudicated rights are subject to further regulation by the State Water Resources Control Board ("SWRCB") and the California Department of Water Resources. Surface water rights are quantified and managed by the SWRCB, unless the surface water rights originated prior to 1914. As of December 31, 2022, GSWC had adjudicated groundwater rights and surface water rights of 70,176 and 11,335 acre-feet per year, respectively. GSWC also has a number of unadjudicated groundwater rights, which have not been quantified, but are typically measured by historical usage.

### **Office Buildings**

GSWC owns its general headquarters facility in San Dimas, California. GSWC also owns and leases customer service offices and office space throughout California. BVESI owns office space in California. ASUS leases office facilities in Georgia, Virginia, and North Carolina, and owns service centers in Florida, Maryland, South Carolina, Virginia, Texas, North Carolina and Kansas.

### **Mortgage and Other Liens**

As of December 31, 2022, neither AWR, GSWC, BVESI, ASUS, nor any of its subsidiaries, had any mortgage debt or liens securing indebtedness outstanding. Under the terms of certain debt instruments, AWR, GSWC and BVESI are prohibited from issuing any secured debt, without providing equal and ratable security to the holders of this existing debt.

**Condemnation of Properties**

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

**Item 3. Legal Proceedings**

Registrant is subject to ordinary routine litigation incidental to its business, some of which may include claims for compensatory and punitive damages. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against, among other things, property, general liability, employment, and workers' compensation claims incurred in the ordinary course of business. Insurance coverage may not cover certain claims involving punitive damages.

**Item 4. Mine Safety Disclosure**

Not applicable.

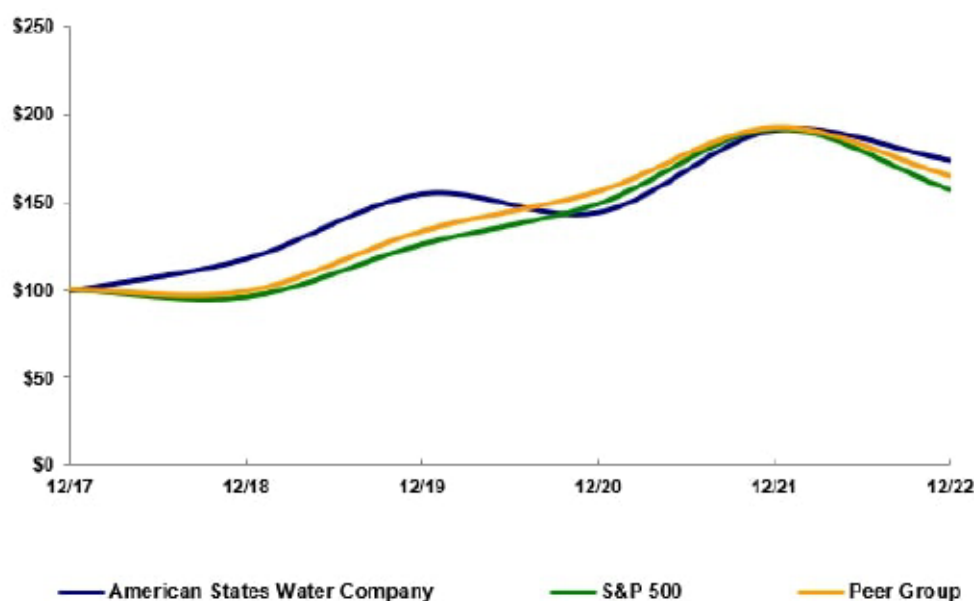
## PART II

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

The graph below compares the cumulative 5-Year total return of American States Water Company's Common Shares with the cumulative total returns of the S&P 500 index and a customized peer group of seven water utilities that includes: American Water Works Company Inc., Essential Utilities Inc., Artesian Resources Corporation, California Water Service Group, Middlesex Water Co, York Water Co. and SJW Group. In accordance with SEC guidance, the returns of the seven utilities included in the peer group are weighted according to their respective market capitalizations.

An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our Common Shares, and in the common stock in the index and in the peer group on December 31, 2017. Relative performance is tracked through December 31, 2022.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
Among American States Water Company, the S&P 500 Index,  
and a Peer Group



\*\$100 invested on 12/31/17 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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|                               | 12/2017   | 12/2018   | 12/2019   | 12/2020   | 12/2021   | 12/2022   |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| American States Water Company | \$ 100.00 | \$ 117.91 | \$ 154.69 | \$ 144.23 | \$ 190.76 | \$ 173.70 |
| S&P 500                       | \$ 100.00 | \$ 95.62  | \$ 125.72 | \$ 148.85 | \$ 191.58 | \$ 156.89 |
| Peer Group                    | \$ 100.00 | \$ 98.85  | \$ 133.37 | \$ 156.07 | \$ 192.70 | \$ 164.94 |

*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

### Market Information Relating to Common Shares

Common Shares of American States Water Company are traded on the New York Stock Exchange (“NYSE”) under the symbol “AWR.” The intraday high and low NYSE prices on the Common Shares for each quarter during the past two years were:

|                | Stock Prices |          |
|----------------|--------------|----------|
|                | High         | Low      |
| <b>2022</b>    |              |          |
| First Quarter  | \$ 103.44    | \$ 81.26 |
| Second Quarter | \$ 92.80     | \$ 71.22 |
| Third Quarter  | \$ 91.02     | \$ 77.91 |
| Fourth Quarter | \$ 100.51    | \$ 77.98 |
| <b>2021</b>    |              |          |
| First Quarter  | \$ 83.05     | \$ 70.07 |
| Second Quarter | \$ 83.75     | \$ 75.34 |
| Third Quarter  | \$ 94.96     | \$ 79.57 |
| Fourth Quarter | \$ 103.77    | \$ 84.93 |

The closing price of the Common Shares of American States Water Company on the NYSE on February 28, 2023 was \$89.30.

### Approximate Number of Holders of Common Shares

As of February 28, 2023, there were 1,950 holders of record of the 36,969,622 outstanding Common Shares of American States Water Company. AWR owns all of the outstanding Common Shares of GSWC, BVESI and ASUS. ASUS owns all of the outstanding stock of the Military Utility Privatization Subsidiaries.

### Frequency and Amount of Any Dividends Declared and Dividend Restrictions

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

|                | 2022      | 2021     |
|----------------|-----------|----------|
| First Quarter  | \$ 0.3650 | \$ 0.335 |
| Second Quarter | \$ 0.3650 | \$ 0.335 |
| Third Quarter  | \$ 0.3975 | \$ 0.365 |
| Fourth Quarter | \$ 0.3975 | \$ 0.365 |
| Total          | \$ 1.5250 | \$ 1.400 |

AWR’s ability to pay dividends is subject to the requirement in its revolving credit facility to maintain compliance with all covenants described in [Note 9 Bank Debt](#) included in Part II, Item 8, in the *Notes to Consolidated Financial Statements*. GSWC is prohibited under the terms of its senior notes from paying dividends if, after giving effect to the dividend, its total indebtedness to capitalization ratio (as defined) would be more than 0.6667-to-1. GSWC would have to issue additional debt of \$746.4 million to invoke this covenant as of December 31, 2022.

Under California law, AWR, GSWC, BVESI and ASUS are each permitted to distribute dividends to its shareholders and repurchase its shares so long as the Board of Directors determines, in good faith, that either: (i) the value of the corporation’s assets equals or exceeds the sum of its total liabilities immediately after the dividend, or (ii) its retained earnings equals or exceeds the amount of the distribution.

Under the least restrictive of the California tests, approximately \$709.5 million was available to pay dividends to AWR’s common shareholders and repurchase shares from AWR’s common shareholders at December 31, 2022. Approximately \$643.9 million was available for GSWC to pay dividends to AWR at December 31, 2022, and approximately \$64.9 million was available for BVESI to pay dividends to AWR at December 31, 2022. BVESI has a separate revolving credit facility, and its ability to pay dividends is subject to the requirement in the credit agreement to maintain compliance with all covenants described in [Note 9 Bank Debt](#).

ASUS's ability to pay dividends to AWR is dependent upon the ability of each of the Military Utility Privatization Subsidiaries to pay dividends to ASUS under applicable state law as well as ASUS's ability to pay dividends under California law.

AWR paid \$56.4 million in dividends to shareholders for the year ended December 31, 2022, as compared to \$51.7 million for the year ended December 31, 2021. GSWC paid dividends of \$27.0 million and \$38.3 million to AWR in 2022 and 2021, respectively. BVESI paid dividends of \$14.7 million during 2022, and did not pay dividends to AWR in 2021. ASUS paid dividends of \$14.7 million in 2022, and did not pay dividends to AWR in 2021.

**Other Information**

The shareholders of AWR have approved the material features of all equity-compensation plans under which AWR directly issues equity securities. AWR did not directly issue any unregistered equity securities during 2022.

The following table provides information about AWR repurchases of its Common Shares during the fourth quarter of 2022:

| Period                | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number of Shares That May Yet Be Purchased under the Plans or Programs (1)(3) |
|-----------------------|----------------------------------|------------------------------|--|---|
| October 1 - 31, 2022  | 13,228                           | \$ 80.12                     | —  | —   |
| November 1 - 30, 2022 | 197                              | \$ 96.82                     | —  | —   |
| December 1 - 31, 2022 | 2,332                            | \$ 98.18                     | —  | —   |
| Total                 | 15,757 (2)                       | \$ 83.00                     | —  | —   |

- (1) None of the Common Shares were repurchased pursuant to any publicly announced stock repurchase program.
- (2) Of these amounts, 12,996 Common Shares were acquired on the open market for employees pursuant to the 401(k) Plan. The remainder of the shares were acquired on the open market for participants in the Common Share Purchase and Dividend Reinvestment Plan.
- (3) Neither the 401(k) plan nor the Common Share Purchase and Dividend Reinvestment Plan contains a maximum number of common shares that may be purchased in the open market.

**Item 6. (Reserved)**



## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis provides information on AWR’s consolidated operations and assets, and includes specific references to AWR’s individual segments and its subsidiaries (GSWC, BVESI, and ASUS and its subsidiaries), and AWR (parent) where applicable. The subsidiaries of ASUS are collectively referred to as the “Military Utility Privatization Subsidiaries.”

Included in the following analysis is a discussion of Registrant’s operations in terms of earnings per share by business segment and AWR (parent), which equals each business segment’s earnings divided by AWR’s weighted average number of diluted common shares. Furthermore, the gains and losses generated on the investments held to fund one of the Company’s retirement plans during the years ended December 31, 2022 and 2021 have been excluded and the retroactive impact of new 2022 water rates not yet recorded due to the delay in receiving a final decision from the CPUC, which will be retroactive to January 1, 2022 when approved, have been included to calculate adjusted diluted earnings per share when communicating AWR’s consolidated and its water segment’s results for the years ended December 31, 2022 and 2021 to help facilitate comparisons of AWR’s performance from period to period. Diluted earnings per share by business segment and adjusted diluted earnings per share constitute “non-GAAP financial measures” under the Securities and Exchange Commission rules, which supplement our GAAP disclosures but should not be considered as an alternative to the respective GAAP measures. Furthermore, the non-GAAP financial measures may not be comparable to similarly titled non-GAAP financial measures of other registrants. All of these measures are derived from consolidated financial information of the Registrant, but are not presented in our financial statements that are prepared in accordance with GAAP.

AWR uses earnings per share by business segment as an important measure in evaluating its operating results and believes it provides investors with clarity surrounding the performance of its segments. AWR reviews this measurement regularly and compares it to historical periods and to its operating budget. A reconciliation to AWR’s consolidated diluted earnings per share prepared in accordance with GAAP is included in the discussion under the section titled “[Summary Results by Segment](#).”

### **Overview**

Factors affecting our financial performance are summarized under the Overview section in [Item 1. Business](#) and [Item 1A. Risk Factors](#).

### **Water and Electric Segments:**

GSWC’s and BVESI’s revenues, operating income, and cash flows are earned primarily through delivering potable water to homes and businesses in California and electricity in the Big Bear area of San Bernardino County, California, respectively. Rates charged to GSWC and BVESI customers are determined by the CPUC. These rates are intended to allow recovery of operating costs and a reasonable rate of return on capital. GSWC and BVESI plan to continue seeking additional rate increases in future years from the CPUC to recover operating and supply costs, and receive reasonable returns on invested capital. Capital expenditures in future years at GSWC and BVESI are expected to remain at substantially higher levels than depreciation expense. When necessary, GSWC and BVESI may obtain funds from external sources in the capital markets and through bank borrowings.

### **General Rate Case Filings and Other Matters:**

#### *Water General Rate Case for years 2022 - 2024:*

In July 2020, GSWC filed a general rate case application for all of its water regions and its general office. This general rate case will determine new water rates for the years 2022 – 2024. In November 2021, GSWC and the Public Advocates Office at the CPUC (“Public Advocates”) filed with the CPUC a joint motion to adopt a settlement agreement between GSWC and Public Advocates on this general rate case application. The settlement agreement, if approved, resolves all issues related to the 2022 annual revenue requirement in the general rate case application, leaving only three unresolved issues. Among other things, the settlement authorizes GSWC to invest approximately \$404.8 million in capital infrastructure over the three-year cycle. The settlement also authorizes GSWC to complete certain advice letter capital projects approved in the last general rate case, which have been completed for a total capital investment of \$9.4 million. The additional annual revenue requirements generated from these capital investments total \$1.2 million and became effective February 15, 2022. Advice letter projects are filed for revenue recovery only when the projects are completed.

Excluding the advice letter project revenues, the amounts included in the settlement agreement would increase the 2022 adopted revenues by approximately \$30.3 million, or \$0.59 per share, as compared to the 2021 adopted revenues, and increase the 2022 adopted supply costs by \$9.6 million, or \$0.19 per share, as compared to the 2021 adopted supply costs, which combined is an increase of \$0.40 per share. The settlement agreement also allows for the potential of additional increases in adopted revenues for 2023 and 2024 subject to an earnings test and changes to the forecasted inflationary index values.

The three remaining unresolved issues relate to GSWC's requests for: (i) a medical insurance cost balancing account, (ii) a general liability insurance cost balancing account, and (iii) the consolidation of two of GSWC's customer service areas. GSWC and Public Advocates have filed briefs with the CPUC on these unsettled issues. A proposed decision will address the three unresolved issues along with the settlement agreement filed by GSWC and Public Advocates. Pending a final decision on this general rate case application, GSWC filed with the CPUC for interim rates that will make the new 2022 rates, once approved in a CPUC final decision, effective January 1, 2022. In January 2023, the CPUC issued a decision that approved a second extension of the statutory deadline for a final decision in the water general rate case proceeding to April 7, 2023.

Due to the delay in finalizing the water general rate case, water revenues billed and recorded for the year ended December 31, 2022 were based on 2021 adopted rates, pending a final decision by the CPUC. When approved, the new rates will be retroactive to January 1, 2022 and cumulative adjustments will be recorded upon receiving a decision by the CPUC that approves the settlement agreement. Had the new 2022 water rates been approved and effective January 1, 2022 consistent with the settlement agreement reached between GSWC and Public Advocates, GSWC would have recorded the additional revenues of \$30.3 million, or \$0.59 per share, and the additional water supply costs of \$9.6 million, or \$0.19 per share, per the settlement agreement previously discussed, as well as an additional reduction to revenues of \$1.1 million, or \$0.02 per share, to reflect the incremental impact of revenues subject to refund from the new 2022 rates as a result of the lower cost of debt in the pending cost of capital proceeding discussed below, which all combined would have been \$0.38 per share higher than what was actually recorded for the year of 2022.

#### *Cost of Capital Proceeding:*

Investor-owned water utilities serving California are required to file their cost of capital applications on a triennial basis. GSWC filed a cost of capital application with the CPUC in May 2021 currently pending approval, which requested a capital structure of 57% equity and 43% debt, a return on equity of 10.5%, an embedded cost of debt of 5.1%, and a return on rate base of 8.18%. Hearings on this proceeding occurred in May 2022 and briefs were filed in June 2022.

The 5.1% cost of debt requested in the pending cost of capital proceeding is lower than the previously authorized amount of 6.6%. The new cost of debt is expected to lower 2022 adopted water revenues by approximately \$7.5 million, or \$0.15 per share, as compared to 2021 adopted water revenues at the currently authorized cost of debt of 6.6% that is presently being billed to water customers until a final decision is issued in this proceeding. Based on management's analysis of this regulatory proceeding and associated accounting to date, for the year ended December 31, 2022, GSWC reduced revenues by \$6.4 million, or approximately \$0.13 per share, based on 2021 billed rates and recorded a corresponding regulatory liability for revenues subject to refund based on its best estimate at this time, which includes the impact of GSWC's lower cost of debt requested in its application. However, management cannot predict the ultimate outcome of the cost of capital application and the associated impact on 2022 revenues. Changes in estimates will be made, if necessary, as more information in this proceeding becomes available. Due to the delay in finalizing the water general rate case previously discussed, water revenues billed and recorded for the year ended December 31, 2022 were based on 2021 adopted rates and, therefore, an additional reduction of \$1.1 million, or \$0.02 per share, will be recorded once a decision is approved in the general rate case to reflect the incremental impact of revenues subject to refund from the new 2022 rates resulting from the lower cost of debt in the pending cost of capital proceeding.

In the pending cost of capital proceeding, GSWC requested authorization to continue the Water Cost of Capital Mechanism ("WCCM"). The WCCM adjusts return on equity and rate of return on rate base between the three-year cost of capital proceedings only if there is a positive or negative change of more than 100 basis points in the average of the Moody's Aa utility bond rate as measured over the period October 1 through September 30. If there is a positive or negative change of more than 100 basis points, the return on equity is adjusted by one half of the difference. For the period from October 1, 2021 through September 30, 2022, the Moody's rate increased by more than 100 basis points from the benchmark, which triggered the WCCM adjustment. The WCCM is expected to be addressed by the CPUC in the pending proposed decision.

#### *Final Decision in the First Phase of the Low-Income Affordability Rulemaking:*

In August 2020, the CPUC issued a final decision in the first phase of the CPUC's Order Instituting Rulemaking evaluating the low income ratepayer assistance and affordability objectives contained in the CPUC's 2010 Water Action Plan. This decision also addressed other issues, including the discontinued use of the Water Revenue Adjustment Mechanism ("WRAM") and the Modified Cost Balancing Account ("MCBA"). The MCBA is a full-cost balancing account used to track the difference between adopted and actual water supply costs (including the effects of changes in both rates and volume). Based on the final decision, any general rate case application filed by GSWC and the other California water utilities after August 27, 2020 may not include a proposal to continue the use of the WRAM or MCBA, but may instead include a proposal to use a limited price adjustment mechanism and an incremental supply cost balancing account. Since its implementation in 2008, the WRAM and MCBA have helped mitigate fluctuations in GSWC's earnings due to changes in water consumption by its customers or changes in water supply mix. Replacing them with mechanisms recommended in the final decision will likely

result in more volatility in GSWC's future earnings and could result in less than, or more than, full recovery of its authorized revenue and supply costs.

As a result of the August 2020 decision, the discontinuation of the WRAM and MCBA for GSWC would be effective for years after 2024. However, on September 30, 2022, the governor of California signed Senate Bill ("SB") 1469. Effective January 1, 2023, SB 1469 allows Class A water utilities, including GSWC, to continue requesting the use of the WRAM in their next general rate case. With the passage of SB 1469, GSWC will be able to request the continued use of the WRAM in its next general rate case to be filed in 2023 that will establish new rates for the years 2025 – 2027. GSWC's request to continue using the WRAM in its next general rate case will be subject to CPUC approval.

In October 2020, GSWC, three other investor-owned water utilities ("IOWUs") operating in California, and the California Water Association ("CWA") filed applications with the CPUC for rehearing on the discontinuation of the WRAM and MCBA, which the CPUC denied in September 2021. GSWC, the three other IOWUs and CWA each separately filed a petition with the California Supreme Court ("Court") to review the CPUC's decision revoking prior authorization of the WRAM and MCBA. In May 2022, the Court granted the petition for writ of review. The Court ordered GSWC, along with the other IOWUs and CWA, to file opening briefs, which were filed on September 1. The CPUC's answer to the opening briefs was originally due by November 15 and reply briefs were due by December 15. However, as a result of SB 1469, in October 2022 the CPUC filed a motion to dismiss the IOWUs and CWA's petition with the Court, and also requested that the Court suspend the proceeding schedule until it rules on the motion to dismiss. The Court granted the CPUC's request to suspend the proceeding schedule. In November 2022, the Supreme Court denied the CPUC's motion to dismiss and established a new proceeding schedule whereby the CPUC filed their answer brief on December 9 and the IOWUs filed their reply brief on January 13, 2023. At this time, management cannot predict the final outcome of this matter.

*Final Decision in the Second Phase of the Low-Income Affordability Rulemaking:*

On July 15, 2021, the CPUC issued a final decision in the second phase of the Low-Income Affordability Rulemaking. The final decision requires that amounts tracked in GSWC's COVID-19 Catastrophic Event Memorandum Account ("CEMA") account for unpaid customer bills be first offset by any (i) federal or state relief for customers' utility bill debt, and (ii) customer payments through payment-plan arrangements prior to receiving recovery from customers at large. In January 2022, GSWC received \$9.5 million of relief funding from the state of California for customers' unpaid water bills incurred during the pandemic, which it applied to its delinquent customers' eligible balances.

In August 2021, GSWC, in addition to three other parties, filed separate applications to the CPUC for rehearing on certain aspects of this final decision, which the CPUC denied in May 2022. In March 2022, CWA filed a petition for writ of review to the California Supreme Court, urging the Court to review the CPUC's final decision on the second phase of the Low-Income Affordability Rulemaking. CWA amended its petition to reflect the CPUC's decision denying the requests for rehearing. In September 2022, the Supreme Court denied CWA's amended petition for writ of review.

*Electric General Rate Cases:*

On August 15, 2019, the CPUC issued a final decision on the electric general rate case that set new rates for the years 2018 – 2022. Among other things, the decision increased adopted electric revenues by \$1.0 million in 2022 not subject to an earnings test. The decision also allowed BVESI to construct all the capital projects requested in its application, which are dedicated to improving system safety and reliability and total approximately \$44 million over the 5-year rate cycle. The decision authorized a return on equity for the electric segment of 9.6% and included a capital structure and a debt cost that are consistent with those approved by the CPUC in March 2018 in connection with GSWC's water segment cost of capital proceeding.

On August 30, 2022, BVESI filed a general rate case application that will determine new electric rates for the years 2023 – 2026. Among other things, BVESI requested (i) capital budgets of approximately \$62 million for the four-year rate cycle, and another \$6.2 million for a large line replacement capital project to be filed for revenue recovery through an advice letter when the project is completed, and (ii) a capital structure for BVESI of 61.8% equity and 38.2% debt, a return on equity of 11.25%, an embedded cost of debt of 5.1%, and a return on rate base of 9.05%. Furthermore, included in the general rate case application is a request for recovery of all capital expenditures and other costs incurred over the last few years in connection with BVESI's wildfire mitigation plans that are currently not in customer rates. These costs will be subject to review by the CPUC during the general rate case proceeding. On December 16, 2022, a pre-hearing conference was held to discuss the scope of issues and schedule for the proceeding. On December 15, 2022, the CPUC approved a decision for BVESI to establish a general rate case memorandum account that makes the new 2023 rates effective and retroactive to January 1, 2023. In February 2023, a scoping memo and ruling that set the final schedule and scope of issues in BVESI's general rate case proceeding was issued by the CPUC. Based on the schedule, a proposed decision is expected in the fourth quarter of 2023.

**Contracted Services Segment:**

ASUS's revenues, operating income and cash flows are earned by providing water and/or wastewater services, including operation and maintenance services and construction of facilities for the water and/or wastewater systems at various military installations, pursuant to an initial 50-year firm fixed-price contract and additional firm fixed-price contracts. The contract price for each of these contracts is subject to annual economic price adjustments. Additional revenues generated by contract operations are primarily dependent on annual economic price adjustments, and new construction activities under contract modifications with the U.S. government or agreements with other third-party prime contractors. ASUS's subsidiaries continue to enter into U.S. government-awarded contract modifications and agreements with third-party prime contractors for new construction projects at the military bases served. During 2022, ASUS was awarded approximately \$34.4 million in new construction projects for completion beginning in 2022 through 2025. Earnings and cash flows from modifications to the initial 50-year contract or additional contracts thereafter with the U.S. government and agreements with third-party prime contractors for additional construction projects may or may not continue in future periods.

Entering into contracts with the U.S. government subjects ASUS to potential government audits or investigations of its business practices and compliance with government procurement statutes and regulations. ASUS is currently under a civil government investigation over bidding and estimating practices used in certain capital upgrade projects. ASUS is cooperating fully with the investigation and management does not currently believe that the investigation will have a material adverse effect on its consolidated results of operations, financial condition, or liquidity. However, at this time, management cannot predict the final outcome or recommendations that may result from the investigation or determine the amount, if any, of penalties and damages that may be assessed.

**COVID-19:**

GSWC, BVESI and ASUS have continued their operations throughout the COVID-19 pandemic given that their water, wastewater and electric utility services are deemed essential. AWR and its subsidiaries continue to monitor the guidance provided by federal, state, and local health authorities and other government officials. While continuing to monitor transmission rates and other variables, employees have returned to company offices. Thus far, the COVID-19 pandemic has not had a material impact on ASUS's current operations.

In response to orders issued by the CPUC and the governor of California, GSWC and BVESI suspended service disconnections for nonpayment. However, pursuant to the CPUC's July 15, 2021 decision in the Second Phase of the Low-Income Affordability Rulemaking discussed previously, the moratorium on water-service disconnections due to non-payment of past-due amounts billed to residential customers expired on February 1, 2022. The CPUC's moratoriums on service disconnections for nonpayment for water and electric customers have ended and as a result, disconnections for delinquent residential customers resumed in June 2022. However, water service cannot be disconnected so long as customers make timely payments on current bills and are provided and adhere to payment plans to pay down past-due bills resulting from the pandemic. In addition, electric-service disconnections for non-payment can only be done after taking into account certain conditions such as average daily temperatures, and residential disconnections are capped on an annual basis at 2.5% of the total residential customers during the previous calendar year.

The COVID-19 pandemic and its lingering effects to the economy has contributed to significant volatility in financial markets resulting in fluctuations in the fair value of plan assets in GSWC's pension and other retirement plans. In addition, the economic impact of the pandemic has also significantly increased the amount of delinquent customer accounts receivable, resulting in both GSWC and BVESI increasing their allowance for doubtful accounts. The CPUC has authorized GSWC and BVESI to track incremental costs, including bad debt expense, in excess of what is included in their respective revenue requirements incurred as a result of the pandemic in COVID-19 emergency-related memorandum accounts, which GSWC and BVESI intend to file with the CPUC for future recovery.

Without the ability to disconnect service for non-payment, during the first half of 2022, GSWC and BVESI continued to experience delinquent customer accounts receivable due to the lingering effects of the COVID-19 pandemic, resulting in both GSWC and BVESI increasing their allowance for doubtful accounts. As of December 31, 2022, GSWC and BVESI had approximately \$3.5 million and \$497,000, respectively, in regulatory asset accounts related to bad debt expense in excess of their revenue requirements, the purchase of personal protective equipment, additional incurred printing costs, and other incremental COVID-19-related costs. Emergency-type memorandum accounts are well-established cost recovery mechanisms authorized as a result of a state/federal declared emergency, and are therefore recognized as regulatory assets for future recovery. As a result, the amounts recorded in the COVID-19 emergency-related memorandum accounts have not impacted GSWC's or BVESI's earnings.

In January 2022, GSWC received \$9.5 million in COVID relief funds through the California Water and Wastewater Arrearage Payment Program to provide assistance to customers for their water debt accrued during the COVID-19 pandemic by remitting federal funds that the state received from the American Rescue Plan Act of 2021 to the utility on behalf of eligible customers. GSWC applied these funds to its delinquent customers' eligible balances. During 2022, BVESI received a total of \$473,000 from the state of California for similar customer relief funding for unpaid electric customer bills incurred during the pandemic. The CPUC requires that amounts tracked in GSWC's and BVESI's COVID-19 emergency-related memorandum

accounts for unpaid customer bills be first offset by any (i) federal and state relief for water or electric utility bill debt, and (ii) customer payments through payment plan arrangements, prior to receiving recovery from customers at large. After these offsets are made, GSWC will file with the CPUC for recovery of the remaining balance. BVESI intends to include the remaining balance in its COVID-19 emergency-related memorandum account for recovery once all alternative sources of funding have been exhausted and credited to eligible customer accounts.

On January 30, 2023, the Biden Administration announced that the COVID-19 national emergency and public health emergency will end on May 11, 2023. The COVID-19 emergency-related memorandum accounts for GSWC and BVESI will remain open until the COVID-19 national emergency and public health emergency ends.

**Summary Results by Segment**

The table below sets forth a comparison of the diluted earnings per share by business segment and for the parent company:

|   | Diluted Earnings per Share |            |           |
|---|----------------------------|------------|-----------|
|   | Year Ended                 |            | CHANGE    |
|   | 12/31/2022                 | 12/31/2021 |           |
| Water   | \$ 1.45                    | \$ 1.87    | \$ (0.42) |
| Electric  | 0.24                       | 0.21       | 0.03      |
| Contracted services   | 0.46                       | 0.48       | (0.02)    |
| AWR (parent)  | (0.04)                     | (0.01)     | (0.03)    |
| Consolidated fully diluted earnings per share, as reported (GAAP) | \$ 2.11                    | \$ 2.55    | \$ (0.44) |

For the year ended December 31, 2022, AWR's recorded consolidated diluted earnings were \$2.11 per share, as compared to \$2.55 per share for the same period in 2021, a decrease of \$0.44 per share. Included in the results for the year ended December 31, 2022 were losses totaling \$5.2 million, or approximately \$0.10 per share, on investments held to fund one of the Company's retirement plans, as compared to gains of \$4.3 million, or approximately \$0.08 per share, for the same period in 2021, both due to financial market conditions. Furthermore, due to the delay in receiving a final decision from the CPUC on GSWC's pending water general rate case that will set new rates beginning in 2022, water revenues billed and recorded for the year of 2022 were based on 2021 adopted rates, pending a final decision. When approved, the new rates will be retroactive to January 1, 2022 and cumulative adjustments will be recorded upon receiving a decision by the CPUC. Had the new 2022 water rates been approved effective January 1, 2022 and consistent with the settlement agreement reached between GSWC and Public Advocates, GSWC would have recorded additional revenues of \$30.3 million, or \$0.59 per share, and additional water supply costs of \$9.6 million, or \$0.19 per share, as well as an additional reduction to revenues of \$1.1 million, or \$0.02 per share, to reflect the incremental impact of revenues subject to refund from the new 2022 rates as a result of the lower cost of debt in the pending cost of capital proceeding, which all combined would have been \$0.38 per share higher than what was actually recorded for the year of 2022.

Excluding the gains and losses on investments from both periods, and including the additional net revenues and water supply costs in the results for the year of 2022 had a final decision in the water general rate case not been delayed, adjusted consolidated diluted earnings for the year of 2022 would have been \$2.59 per share as compared to adjusted diluted earnings of \$2.47 per share for the same period in 2021, an adjusted increase of \$0.12 per share.

The following is a computation and reconciliation of diluted earnings per share from the measure of operating income by business segment as disclosed in [Note 17](#) to the Consolidated Financial Statements, to AWR's consolidated fully diluted earnings per common share for the year ended December 31, 2022 and 2021:

| In 000's except per share amounts         | Water     |            | Electric  |           | Contracted Services |           | AWR (Parent) |           | Consolidated (GAAP) |            |
|---|-----------|------------|-----------|-----------|---------------------|-----------|--------------|-----------|---------------------|------------|
|   | 2022      | 2021       | 2022      | 2021      | 2022                | 2021      | 2022         | 2021      | 2022                | 2021       |
| Operating income (Note 17)                | \$ 92,455 | \$ 107,573 | \$ 11,740 | \$ 10,738 | \$ 22,449           | \$ 22,675 | \$ (8)       | \$ (9)    | \$ 126,636          | \$ 140,977 |
| Other income and expense                  | 22,339    | 16,263     | 425       | (101)     | (273)               | (488)     | 2,085        | 533       | 24,576              | 16,207     |
| Income tax expense (benefit)              | 16,346    | 22,095     | 2,439     | 2,975     | 5,476               | 5,434     | (597)        | (81)      | 23,664              | 30,423     |
| Net income (loss)                         | \$ 53,770 | \$ 69,215  | \$ 8,876  | \$ 7,864  | \$ 17,246           | \$ 17,729 | \$ (1,496)   | \$ (461)  | \$ 78,396           | \$ 94,347  |
| Weighted Average Number of Diluted Shares | 37,039    | 37,010     | 37,039    | 37,010    | 37,039              | 37,010    | 37,039       | 37,010    | 37,039              | 37,010     |
| Diluted earnings per share                | \$ 1.45   | \$ 1.87    | \$ 0.24   | \$ 0.21   | \$ 0.46             | \$ 0.48   | \$ (0.04)    | \$ (0.01) | \$ 2.11             | \$ 2.55    |

**Water Segment:**

For the year ended December 31, 2022, recorded diluted earnings from the water utility segment were \$1.45 per share, as compared to \$1.87 per share for the same period in 2021, a decrease of \$0.42 per share. As discussed above, the decrease at the water segment was partly due to losses of \$0.10 per share incurred during the year ended December 31, 2022 on investments held to fund a retirement plan, as compared to gains of \$0.08 per share for the same period in 2021, a net decrease in earnings of \$0.18 per share. Furthermore, and also discussed above, the water segment's results for the year ended December 31, 2022 would have included an additional \$0.38 per share had there been no delay in receiving a decision approving the settlement agreement with Public Advocates in the water general rate case that approves the new 2022 rates effective January 1, 2022.

Excluding the gains and losses on investments from both periods, and including the additional net revenues and water supply costs in the result for the year ended December 31, 2022 had a final decision in the water general rate case not been delayed, adjusted diluted earnings for the year ended December 31, 2022 at the water segment were \$1.93 per share as compared to adjusted diluted earnings of \$1.79 per share for the same period in 2021, an adjusted increase at the water segment of \$0.14 per share, or a 7.8% increase, despite an approximate \$0.13 per share reduction in earnings during the year ended December 31, 2022 as a result of the lower cost of debt in the pending cost of capital proceeding discussed below.

Excluding only the gains and losses on investments from both periods discussed above, adjusted diluted earnings at the water segment for the year ended December 31, 2022 were \$1.55 per share, as compared to adjusted earnings of \$1.79 per share for 2021, an adjusted decrease of \$0.24 per share due to the following items:

- A decrease in the water operating revenues of \$6.5 million largely as a result of the lower cost of debt included in the pending cost of capital application. GSWC recorded a reduction to revenues during the year ended December 31, 2022 of \$6.4 million, or approximately \$0.13 per share, to reflect management's best estimate at this time of revenues subject to refund from the pending cost of capital proceeding, which includes the impact of GSWC's lower cost of debt requested in its application. However, management cannot predict the ultimate outcome of the cost of capital application and the associated impact on 2022 revenues. Changes in estimates will be made, if necessary, as more information in this proceeding becomes available. As discussed previously, water revenues billed and recorded for the year ended December 31, 2022 were based on 2021 adopted rates, pending a final decision by the CPUC on the general rate case application.
- An increase in water supply costs of \$1.1 million, which consist primarily of the changes in the water supply cost balancing accounts due to the effect of rate increases implemented mid-year 2021 reducing the under-collections offset by a decrease in water purchased due to decreases in water consumption and production that are being driven by drought conditions and water use restrictions, partially offset by increases in wholesale water costs. Adopted supply costs for the year ended December 31, 2022 were based on 2021 authorized amounts, pending a final decision by the CPUC in the water general rate case application. Actual water supply costs are tracked and passed through to customers on a dollar-for-dollar basis by way of the CPUC-approved water supply cost balancing accounts. The increase in water supply costs results in a corresponding increase in water operating revenues and has no net impact on the water segment's profitability.
- An overall increase in operating expenses of \$7.1 million (excluding supply costs), which negatively impacted earnings and was mainly due to increases in (i) overall labor costs, (ii) operation-related expenses resulting from higher chemical and water treatment costs and transportation expenses, (iii) administrative and general expenses resulting from higher insurance costs, and employee-related benefits, (iv) depreciation and amortization expenses resulting from additions to utility plant, and (v) maintenance expenses.
- The sale of non-utility-related land at the water segment resulted in a gain of \$409,000 recorded during 2021, with no equivalent item in 2022.
- An overall increase in interest expense (net of interest and other income) of \$613,000 resulting primarily to an overall increase in total borrowing levels to support, among other things, the capital expenditures program at GSWC and higher short-term interest rates. This was partially offset by an increase in interest income earned on regulatory assets at the water segment bearing interest at the current 90-day commercial paper rate, which increased compared to 2021.
- An overall increase in other income (net of other expenses) of \$4.0 million due primarily from a decrease in the non-service cost components related to GSWC's benefit plans resulting from lower actuarial losses recognized during the year ended December 31, 2022 as compared to 2021.
- A decrease in the effective income tax rate, which positively impacted earnings. The decrease resulted primarily from changes in certain flow-through and permanent items. As a regulated utility, GSWC treats certain temporary differences as flow-through in computing its income tax expense consistent with the income tax method used in its CPUC-jurisdiction ratemaking. Changes in the magnitude of flow-through items either increase or decrease tax expense, thereby affecting diluted earnings per share.

#### Electric Segment:

Diluted earnings from the electric utility segment increased \$0.03 per share for the year ended December 31, 2022 as compared to 2021, largely due to an increase in electric operating revenues resulting from CPUC-approved rate increases effective January 1, 2022 and a lower effective income tax rate at the electric segment due to changes in flow-through taxes, partially offset by higher interest expense (net of interest income). In April 2022, BVESI completed the issuance of \$35.0 million in unsecured private-placement notes consisting of 10 and 15 year terms. BVESI used the proceeds to pay down all outstanding borrowings under its credit facility as required by the CPUC. Generally, borrowings under the credit facility bear lower short-term rates.

Contracted Services Segment:

Diluted earnings from the contracted services segment decreased \$0.02 per share for the year ended December 31, 2022 as compared to 2021, largely due to a decrease in construction activity resulting from timing differences of when such work was performed as compared to the same period of 2021, as well as a slowdown caused by longer materials supply-chain lead-times, delays in receiving capital upgrade awards, and other delays. There was also an increase in overall operating expenses (excluding construction expenses). These decreases to earnings at the contracted services segment were partially offset by an increase in management fee revenues resulting from the annual economic price adjustments.

AWR (Parent):

For the year ended December 31, 2022, diluted earnings from AWR (parent) decreased \$0.03 per share compared to 2021 due primarily to an increase in interest expense resulting from higher short-term interest rates on borrowings made under AWR's revolving credit facility.

The following discussion and analysis for the years ended December 31, 2022 and 2021 provide information on AWR's consolidated operations and assets and, where necessary, includes specific references to AWR's individual segments and subsidiaries: GSWC, BVESI and ASUS and its subsidiaries.



**Consolidated Results of Operations — Years Ended December 31, 2022 and 2021 (amounts in thousands, except per share amounts):**

|  | Year Ended<br>12/31/2022 | Year Ended<br>12/31/2021 | \$<br>CHANGE       | %<br>CHANGE |
|--|--------------------------|--------------------------|--------------------|-------------|
| <b>OPERATING REVENUES</b>                        |                          |                          |                    |             |
| Water  | \$ 340,602               | \$ 347,112               | \$ (6,510)         | -1.9 %      |
| Electric   | 39,986                   | 38,345                   | 1,641              | 4.3 %       |
| Contracted services                              | 110,940                  | 113,396                  | (2,456)            | -2.2 %      |
| Total operating revenues                         | <u>491,528</u>           | <u>498,853</u>           | <u>(7,325)</u>     | -1.5 %      |
| <b>OPERATING EXPENSES</b>                        |                          |                          |                    |             |
| Water purchased                                  | 75,939                   | 77,914                   | (1,975)            | -2.5 %      |
| Power purchased for pumping                      | 11,861                   | 11,103                   | 758                | 6.8 %       |
| Groundwater production assessment                | 19,071                   | 19,412                   | (341)              | -1.8 %      |
| Power purchased for resale                       | 15,039                   | 11,240                   | 3,799              | 33.8 %      |
| Supply cost balancing accounts                   | (12,000)                 | (11,421)                 | (579)              | 5.1 %       |
| Other operation                                  | 38,095                   | 34,738                   | 3,357              | 9.7 %       |
| Administrative and general                       | 86,190                   | 83,547                   | 2,643              | 3.2 %       |
| Depreciation and amortization                    | 41,315                   | 39,596                   | 1,719              | 4.3 %       |
| Maintenance                                      | 13,392                   | 12,781                   | 611                | 4.8 %       |
| Property and other taxes                         | 22,894                   | 22,522                   | 372                | 1.7 %       |
| ASUS construction                                | 53,171                   | 56,909                   | (3,738)            | -6.6 %      |
| Gain on sale of assets                           | (75)                     | (465)                    | 390                | -83.9 %     |
| Total operating expenses                         | <u>364,892</u>           | <u>357,876</u>           | <u>7,016</u>       | 2.0 %       |
| OPERATING INCOME                                 | 126,636                  | 140,977                  | (14,341)           | -10.2 %     |
| <b>OTHER INCOME AND EXPENSES</b>                 |                          |                          |                    |             |
| Interest expense                                 | (27,027)                 | (22,834)                 | (4,193)            | 18.4 %      |
| Interest income                                  | 2,326                    | 1,493                    | 833                | 55.8 %      |
| Other, net                                       | 125                      | 5,134                    | (5,009)            | -97.6 %     |
|  | <u>(24,576)</u>          | <u>(16,207)</u>          | <u>(8,369)</u>     | 51.6 %      |
| INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE | 102,060                  | 124,770                  | (22,710)           | -18.2 %     |
| Income tax expense                               | 23,664                   | 30,423                   | (6,759)            | -22.2 %     |
| NET INCOME                                       | <u>\$ 78,396</u>         | <u>\$ 94,347</u>         | <u>\$ (15,951)</u> | -16.9 %     |
| Basic earnings per Common Share                  | <u>\$ 2.12</u>           | <u>\$ 2.55</u>           | <u>\$ (0.43)</u>   | -16.9 %     |
| Fully diluted earnings per Common Share          | <u>\$ 2.11</u>           | <u>\$ 2.55</u>           | <u>\$ (0.44)</u>   | -17.3 %     |

## *Operating Revenues*

### General

GSWC and BVESI rely upon approvals by the CPUC of rate increases to recover operating expenses and to provide for a return on invested and borrowed capital used to fund utility plant. ASUS relies on economic price and equitable adjustments by the U.S. government in order to recover operating expenses and provide a profit margin for ASUS. Current operating revenues and earnings may be negatively impacted if the Military Utility Privatization Subsidiaries do not receive adequate price adjustments in a timely manner. ASUS's earnings are also impacted by the level of construction projects at the Military Utility Privatization Subsidiaries, which may or may not continue at current levels in future periods.

### Water

Due to the delay in the CPUC issuing a final decision on the water general rate case, billed water revenues for the year ended December 31, 2022 were based on 2021 adopted rates, pending a CPUC final decision on GSWC's general rate case application. For the year ended December 31, 2022, revenues from water operations decreased by \$6.5 million to \$340.6 million, compared to the same period in 2021 as a result of the lower cost of debt included in the pending cost of capital application. GSWC recorded a reduction to water revenues of \$6.4 million to reflect management's best estimate at this time of revenues subject to refund from the pending cost of capital proceeding, which includes the impact of GSWC's lower cost of debt requested in its application.

Billed water consumption for the year ended December 31, 2022 was lower by 6.0% compared to 2021. Currently, changes in consumption generally do not have a significant impact on recorded revenues due to the CPUC-approved WRAM that is in place in all but one small rate-making area. GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC in the WRAM accounts as regulatory assets or liabilities.

### Electric

Electric revenues for the year ended December 31, 2022 increased \$1.6 million to \$40.0 million as a result of new CPUC-approved electric rates effective January 1, 2022 and a 6.5% increase in electric usage as compared to 2021. Due to the CPUC-approved Base Revenue Requirement Adjustment Mechanism, which adjusts certain revenues to adopted levels authorized by the CPUC, changes in usage do not have a significant impact on earnings.

### Contracted Services

Revenues from contracted services are composed of construction revenues (including renewal and replacements) and management fees for operating and maintaining the water and/or wastewater systems at various military bases. For the year ended December 31, 2022, revenues from contracted services decreased \$2.5 million to \$110.9 million as compared to \$113.4 million for 2021. The decrease was due to lower construction activity resulting, in part, from timing differences of when such work was performed as compared to the same period of 2021, as well as a slowdown primarily caused by longer materials supply-chain lead-times, delays in receiving capital upgrade awards, and other delays. This decrease was partially offset by increases in management fees due to the successful resolution of various economic price adjustments.

ASUS's subsidiaries continue to enter into U.S. government-awarded contract modifications and agreements with third-party prime contractors for new construction projects at the military bases served. During 2022, ASUS was awarded approximately \$34.4 million in new construction projects for completion in 2022 through 2025. Earnings and cash flows from modifications to the initial 50-year contract and additional contracts with the U.S. government and agreements with third-party prime contractors for additional construction projects may or may not continue in future periods.

## *Operating Expenses:*

### *Supply Costs*

Total supply costs at the regulated utilities comprise the largest segment of total consolidated operating expenses. Supply costs accounted for 30.1% and 30.2% of total operating expenses for the years ended December 31, 2022 and 2021, respectively.

### *Water segment supply costs*

Two of the principal factors affecting water supply costs are the amount of water produced and the source of the water. Generally, the variable cost of producing water from wells is less than the cost of water purchased from wholesale suppliers. The overall actual percentages for purchased water for the years ended December 31, 2022 and 2021 were 45%, as compared to the adopted percentages of 34% for 2022 and 2021. The higher actual percentage of purchased water as compared to the adopted percentage resulted from a higher volume of purchased water costs due to several wells being out of service. Due to the delay in finalizing the water general rate case, which will set new rates for the years 2022 through 2024, adopted supply

costs for the year ended December 31, 2022 were based on 2021 authorized amounts, pending a final decision by the CPUC on GSWC's general rate case application.

Under the current CPUC-approved Modified Cost Balancing Account ("MCBA"), GSWC tracks adopted and actual expense levels for purchased water, power purchased for pumping and pump taxes. GSWC records the variances (which include the effects of changes in both rate and volume) between adopted and actual purchased water, purchased power and pump tax expenses as a regulatory asset or liability. GSWC recovers from, or refunds to, customers the amount of such variances. GSWC tracks these variances individually for each water ratemaking area.

Supply costs for the water segment consist of purchased water, purchased power for pumping, groundwater production assessments and changes in the water supply cost balancing accounts. For the years ended December 31, 2022 and 2021, water supply costs consisted of the following amounts (in thousands):

|  | Year<br>Ended<br>12/31/2022 | Year<br>Ended<br>12/31/2021 | \$<br>CHANGE    | %<br>CHANGE  |
|--|-----------------------------|-----------------------------|-----------------|--------------|
| Water purchased                        | \$ 75,939                   | \$ 77,914                   | \$ (1,975)      | -2.5 %       |
| Power purchased for pumping            | 11,861                      | 11,103                      | 758             | 6.8 %        |
| Groundwater production assessment      | 19,071                      | 19,412                      | (341)           | -1.8 %       |
| Water supply cost balancing accounts * | (8,643)                     | (11,295)                    | 2,652           | -23.5 %      |
| <b>Total water supply costs</b>        | <b>\$ 98,228</b>            | <b>\$ 97,134</b>            | <b>\$ 1,094</b> | <b>1.1 %</b> |

\* The sum of water and electric supply-cost balancing accounts are shown on AWR's Consolidated Statements of Income and totaled \$(12,000,000) and \$(11,421,000) for 2022 and 2021, respectively.

Purchased water costs for the year ended December 31, 2022 decreased to \$75.9 million as compared to \$77.9 million for 2021 primarily due to decreases in water consumption and production that are being driven by drought conditions and water use restrictions, partially offset by increases in wholesale water costs. The increase in power purchased for pumping was due to increases in electric rates. Groundwater production assessments decreased due to a decrease in water usage, partially offset by increases in pump tax rates during the year ended December 31, 2022 as compared to 2021.

For the year ended December 31, 2022, the water supply cost balancing account had \$8.6 million under-collection as compared to an \$11.3 million under-collection in 2021. The decrease in under-collection was primarily due to the effect of rate increases implemented mid-year 2021 at certain rate-making areas to specifically cover increases in supply costs experienced in these areas, thereby reducing their under-collections.

#### *Electric segment supply costs*

Supply costs for the electric segment consist primarily of purchased power for resale, the cost of natural gas used by BVESI's generating unit, the cost of renewable energy credits and changes in the electric supply cost balancing account. For the years ended December 31, 2022 and 2021, electric supply costs consisted of the following amounts (in thousands):

|  | Year<br>Ended<br>12/31/2022 | Year<br>Ended<br>12/31/2021 | \$<br>CHANGE  | %<br>CHANGE  |
|--|-----------------------------|-----------------------------|---------------|--------------|
| Power purchased for resale               | \$ 15,039                   | \$ 11,240                   | \$ 3,799      | 33.8 %       |
| Electric supply cost balancing account * | (3,357)                     | (126)                       | (3,231)       | 2,564.3 %    |
| <b>Total electric supply costs</b>       | <b>\$ 11,682</b>            | <b>\$ 11,114</b>            | <b>\$ 568</b> | <b>5.1 %</b> |

\* The sum of water and electric supply-cost balancing accounts are shown on AWR's Consolidated Statements of Income and totaled \$(12,000,000) and \$(11,421,000) for 2022 and 2021, respectively.

For the year ended December 31, 2022, the cost of power purchased for resale to BVESI's customers increased to \$15.0 million as compared to \$11.2 million for 2021 primarily due to higher average price per megawatt-hour ("MWh"). The average price per MWh, including fixed costs, increased to \$97.89 per MWh in 2022 from \$71.94 per MWh in 2021. This increase in price resulted in an under-collection of \$3.4 million recorded in the electric supply balancing account during 2022 as compared to an under-collection of \$126,000 during 2021.

**Other Operation**

The primary components of other operation expenses include payroll, materials and supplies, chemicals and water-treatment costs, and outside service costs of operating the regulated water and electric systems, including the costs associated with transmission and distribution, pumping, water quality, meter reading, billing, and operations of district offices. Registrant's contracted services operations incur many of the same types of expenses. For the years ended December 31, 2022 and 2021, other operation expenses by business segment consisted of the following amounts (in thousands):

|                       | Year<br>Ended<br>12/31/2022 | Year<br>Ended<br>12/31/2021 | \$<br>CHANGE    | %<br>CHANGE |
|-----------------------|-----------------------------|-----------------------------|-----------------|-------------|
| Water Services        | \$ 28,117                   | \$ 25,781                   | \$ 2,336        | 9.1 %       |
| Electric Services     | 3,311                       | 3,011                       | 300             | 10.0 %      |
| Contracted Services   | 6,667                       | 5,946                       | 721             | 12.1 %      |
| Total other operation | <u>\$ 38,095</u>            | <u>\$ 34,738</u>            | <u>\$ 3,357</u> | 9.7 %       |

For the year ended December 31, 2022, other operation costs at the water segment increased due primarily to higher water treatment and chemical costs, as well as transportation costs. The increase at the electric segment was due primarily to higher operation-related outside-service costs. The increase at the contracted services segment was due primarily to higher water treatment and chemical costs, operation-related labor, and transportation costs. Transportation costs were higher due, in part, to increases in fuel and maintenance costs.

**Administrative and General**

Administrative and general expenses include payroll related to administrative and general functions, all employee-related benefits, insurance expenses, outside legal and consulting fees, regulatory utility commission expenses, expenses associated with being a public company and general corporate expenses charged to expense accounts. For the years ended December 31, 2022 and 2021, administrative and general expenses by business segment, including AWR (parent), consisted of the following amounts (in thousands):

|                                  | Year<br>Ended<br>12/31/2022 | Year<br>Ended<br>12/31/2021 | \$<br>CHANGE    | %<br>CHANGE |
|----------------------------------|-----------------------------|-----------------------------|-----------------|-------------|
| Water Services                   | \$ 58,358                   | \$ 55,552                   | \$ 2,806        | 5.1 %       |
| Electric Services                | 7,901                       | 8,694                       | (793)           | -9.1 %      |
| Contracted Services              | 19,923                      | 19,292                      | 631             | 3.3 %       |
| AWR (parent)                     | 8                           | 9                           | (1)             | -11.1 %     |
| Total administrative and general | <u>\$ 86,190</u>            | <u>\$ 83,547</u>            | <u>\$ 2,643</u> | 3.2 %       |

Administrative and general expenses increased at the water segment largely due to increases in employee-related benefits, including an increase of \$1.2 million related to the service cost component of GSWC's defined-benefit pension plan. As a result of GSWC's two-way pension balancing account authorized by the CPUC, increases in pension costs are fully recovered in customer rates, thus having no material impact to earnings. There was also an increase in insurance and general corporate costs, partially offset by decreases in regulatory and other outside-service costs.

Administrative and general expenses decreased at the electric segment due, in part, to a decrease of \$192,000 in surcharges billed to customers for the recovery of previously incurred costs, which had a corresponding decrease in administrative and general expenses, resulting in no impact to earnings. There was also a decrease in outside-service and other administrative and general costs.

Administrative and general expenses increased at the contracted services segment due to an increase in outside services, insurance, travel, and labor expenses.

**Depreciation and Amortization**

For the years ended December 31, 2022 and 2021, depreciation and amortization expense by segment consisted of the following amounts (in thousands):

|                                     | Year<br>Ended<br>12/31/2022 | Year<br>Ended<br>12/31/2021 | \$<br>CHANGE    | %<br>CHANGE |
|-------------------------------------|-----------------------------|-----------------------------|-----------------|-------------|
| Water Services                      | \$ 34,805                   | \$ 33,384                   | \$ 1,421        | 4.3 %       |
| Electric Services                   | 2,792                       | 2,572                       | 220             | 8.6 %       |
| Contracted Services                 | 3,718                       | 3,640                       | 78              | 2.1 %       |
| Total depreciation and amortization | <u>\$ 41,315</u>            | <u>\$ 39,596</u>            | <u>\$ 1,719</u> | 4.3 %       |

The overall increase in depreciation expense resulted primarily from additions to utility plant and other fixed assets since 2021.

**Maintenance**

For the years ended December 31, 2022 and 2021, maintenance expense by segment consisted of the following amounts (in thousands):

|                     | Year<br>Ended<br>12/31/2022 | Year<br>Ended<br>12/31/2021 | \$<br>CHANGE  | %<br>CHANGE |
|---------------------|-----------------------------|-----------------------------|---------------|-------------|
| Water Services      | \$ 9,559                    | \$ 9,056                    | \$ 503        | 5.6 %       |
| Electric Services   | 723                         | 697                         | 26            | 3.7 %       |
| Contracted Services | 3,110                       | 3,028                       | 82            | 2.7 %       |
| Total maintenance   | <u>\$ 13,392</u>            | <u>\$ 12,781</u>            | <u>\$ 611</u> | 4.8 %       |

Maintenance expense increased at the water segment due to higher unplanned maintenance and maintenance-related materials expenses incurred as compared to 2021.

**Property and Other Taxes**

For the years ended December 31, 2022 and 2021, property and other taxes by segment, consisted of the following amounts (in thousands):

|                                | Year<br>Ended<br>12/31/2022 | Year<br>Ended<br>12/31/2021 | \$<br>CHANGE  | %<br>CHANGE |
|--------------------------------|-----------------------------|-----------------------------|---------------|-------------|
| Water Services                 | \$ 19,080                   | \$ 19,041                   | \$ 39         | 0.2 %       |
| Electric Services              | 1,837                       | 1,519                       | 318           | 20.9 %      |
| Contracted Services            | 1,977                       | 1,962                       | 15            | 0.8 %       |
| Total property and other taxes | <u>\$ 22,894</u>            | <u>\$ 22,522</u>            | <u>\$ 372</u> | 1.7 %       |

Property and other taxes increased at the water and electric segment primarily due to an increase in property taxes resulting from higher assessed property values brought about by capital additions. The increase at the water segment from property taxes was partially offset by a decrease in franchise fees resulting from lower water revenues recognized in 2022 compared to 2021.

**ASUS Construction**

For the year ended December 31, 2022, construction expenses for contracted services were \$53.2 million, decreasing by \$3.7 million compared to 2021 primarily due to a decrease in construction activity resulting from timing differences of when such work was performed as compared to 2021, as well as a slowdown caused by longer materials supply-chain lead-times, delays in receiving capital upgrade awards, and other delays.

**Gain On Sale of Assets**

The decrease in gain on sale of assets in 2022 compared to 2021 was related primarily to the sale of a parcel of non-utility-related land at the water segment in 2021 with no equivalent item in 2022.

**Interest Expense**

For the years ended December 31, 2022 and 2021, interest expense by segment, including AWR (parent), consisted of the following amounts (in thousands):

|                               | Year<br>Ended<br>12/31/2022 | Year<br>Ended<br>12/31/2021 | \$<br>CHANGE    | %<br>CHANGE   |
|-------------------------------|-----------------------------|-----------------------------|-----------------|---------------|
| Water Services                | \$ 22,742                   | \$ 21,474                   | \$ 1,268        | 5.9 %         |
| Electric Services             | 1,225                       | 259                         | 966             | 373.0 %       |
| Contracted Services           | 743                         | 370                         | 373             | 100.8 %       |
| AWR (parent)                  | 2,317                       | 731                         | 1,586           | 217.0 %       |
| <b>Total interest expense</b> | <b>\$ 27,027</b>            | <b>\$ 22,834</b>            | <b>\$ 4,193</b> | <b>18.4 %</b> |

AWR's borrowings consist of bank debts under revolving credit facilities and long-term debt issuances at GSWC and BVESI. Consolidated interest expense increased as compared to 2021 resulting from an overall increase in total borrowing levels to support, among other things, the capital expenditures programs at the regulated utilities, as well as overall increases in short- and long-term interest rates. Increases to borrowing levels include BVESI's issuance of \$35.0 million in unsecured private-placement notes in April 2022 consisting of 10 and 15 year term notes with interest rates at 4.548% and 4.949%, respectively.

**Interest Income**

For the years ended December 31, 2022 and 2021, interest income by business segment, including AWR (parent), consisted of the following amounts (in thousands):

|                              | Year<br>Ended<br>12/31/2022 | Year<br>Ended<br>12/31/2021 | \$<br>CHANGE  | %<br>CHANGE   |
|------------------------------|-----------------------------|-----------------------------|---------------|---------------|
| Water Services               | \$ 1,083                    | \$ 428                      | \$ 655        | 153.0 %       |
| Electric Services            | 394                         | 118                         | 276           | 233.9 %       |
| Contracted Services          | 875                         | 1,007                       | (132)         | -13.1 %       |
| AWR (parent)                 | (26)                        | (60)                        | 34            | -56.7 %       |
| <b>Total interest income</b> | <b>\$ 2,326</b>             | <b>\$ 1,493</b>             | <b>\$ 833</b> | <b>55.8 %</b> |

The overall increase in interest income was due primarily to higher interest income earned on regulatory assets at the water and electric segments bearing interest at the current 90-day commercial-paper rates, which have increased since 2021, partially offset by lower interest income recognized on certain construction projects at the contracted services segment as compared to 2021.

**Other Income and (Expense), net**

For the years ended December 31, 2022 and 2021, other income and (expense) by business segment, including AWR (parent), consisted of the following amounts (in thousands):

|                              | Year<br>Ended<br>12/31/2022 | Year<br>Ended<br>12/31/2021 | \$<br>CHANGE      | %<br>CHANGE    |
|------------------------------|-----------------------------|-----------------------------|-------------------|----------------|
| Water Services               | \$ (680)                    | \$ 4,783                    | \$ (5,463)        | -114.2 %       |
| Electric Services            | 406                         | 242                         | 164               | 67.8 %         |
| Contracted Services          | 141                         | (149)                       | 290               | -194.6 %       |
| AWR (parent)                 | 258                         | 258                         | —                 | — %            |
| <b>Total interest income</b> | <b>\$ 125</b>               | <b>\$ 5,134</b>             | <b>\$ (5,009)</b> | <b>-97.6 %</b> |

For the year ended December 31, 2022, other income (net of other expense) decreased mostly as a result of losses incurred on investments held to fund one of the Company's retirement plans, as compared to gains generated during 2021, both due to financial market conditions. This was partially offset by a decrease in the non-service cost components of net periodic benefit costs related to the Company's defined-benefit pension plan and other retirement benefits resulting from lower actuarial losses recognized during the year ended December 31, 2022, as compared to the same period in 2021. However, as a result of GSWC's and BVESI's two-way pension balancing accounts authorized by the CPUC, changes in total net periodic benefit costs related to the pension plan have no material impact to earnings.

**Income Tax Expense**

For the years ended December 31, 2022 and 2021, income tax expense by segment, including AWR (parent), consisted of the following amounts (in thousands):

|                                 | Year<br>Ended<br>12/31/2022 | Year<br>Ended<br>12/31/2021 | \$<br>CHANGE      | %<br>CHANGE    |
|---------------------------------|-----------------------------|-----------------------------|-------------------|----------------|
| Water Services                  | \$ 16,346                   | \$ 22,095                   | \$ (5,749)        | -26.0 %        |
| Electric Services               | 2,439                       | 2,975                       | (536)             | -18.0 %        |
| Contracted Services             | 5,476                       | 5,434                       | 42                | 0.8 %          |
| AWR (parent)                    | (597)                       | (81)                        | (516)             | 637.0 %        |
| <b>Total income tax expense</b> | <b>\$ 23,664</b>            | <b>\$ 30,423</b>            | <b>\$ (6,759)</b> | <b>-22.2 %</b> |

Consolidated income tax expense for the year ended December 31, 2022 decreased by \$6.8 million primarily due to a decrease in pretax income as compared to the same period in 2021. AWR's ETRs were 23.2% and 24.4% for the years ended December 31, 2022 and 2021, respectively. GSWC's ETR was 23.3% for the year ended December 31, 2022 as compared to 24.2% for 2021. The decrease in GSWC's ETR was primarily due to net changes in certain flow-through and permanent items. The increase in AWR (parent)'s tax benefit was primarily due to an increase in pretax loss resulting from higher interest expense.

Information comparing the consolidated results of operations for fiscal years 2021 and 2020 can be found under Item 7, Management's Discussion and Analysis under the heading "Consolidated Results of Operations-Years Ended December 31, 2021 and 2020" in AWR's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 filed with the SEC.

### **Critical Accounting Policies and Estimates**

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

**Accounting for Rate Regulation** — Because GSWC and BVESI operate extensively in regulated businesses, they are subject to the authoritative guidance for accounting for the effects of certain types of regulation. Application of this guidance requires accounting for certain transactions in accordance with regulations adopted by the regulatory commissions of the states in which rate-regulated operations are conducted. Utility companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the ratemaking process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

Regulation and the effects of regulatory accounting have the most significant impact on the financial statements of GSWC and BVESI. When either files for adjustments to rates, the capital assets, operating costs and other matters are subject to review, and disallowances may occur. In the event that a portion of either GSWC's or BVESI's operations are no longer subject to the accounting guidance for the effects of certain types of regulation, they are required to write-off related regulatory assets that are not specifically recoverable and determine if other assets might be impaired. If the CPUC determines that a portion of either GSWC's or BVESI's assets are not recoverable in customer rates, management is required to determine if it has suffered an asset impairment that would require a write-down in the asset valuation. Management continually evaluates the anticipated recovery, settlement or refund of regulatory assets, liabilities, and revenues subject to refund and provides for allowances and/or reserves that it believes to be necessary. In the event that management's assessment as to the probability of the inclusion in the ratemaking process is incorrect, the associated regulatory asset or liability will be adjusted to reflect the change in assessment or the impact of regulatory approval of rates. Reviews by the CPUC may also result in additional regulatory liabilities to refund previously collected revenues to customers if the CPUC were to disallow costs included in the ratemaking process.

Registrant also reviews its utility plant in-service for possible impairment in accordance with accounting guidance for regulated entities for abandonments and disallowances of plant costs.

**Revenue Recognition** — GSWC and BVESI record water and electric utility operating revenues when the service is provided to customers. Operating revenues include unbilled revenues that are earned (i.e., the service has been provided) but not billed by the end of each accounting period. Unbilled revenues are calculated based on the number of days and total usage from each customer's most recent billing record that was billed prior to the end of the accounting period and is used to estimate unbilled consumption as of the year-end reporting period. Unbilled revenues are recorded for both monthly and bi-monthly customers.

In 2008, the CPUC granted GSWC the authority to implement revenue decoupling mechanisms through the adoption of the WRAM. With the adoption of this alternative revenue program, GSWC adjusts revenues in the WRAM for the difference between what is billed to its water customers and that which is authorized by the CPUC. GSWC's request to continue using the WRAM in its next general rate case is subject to CPUC approval. The CPUC also granted BVESI a revenue decoupling mechanism through the BRRAM. BVESI adjusts revenues in the BRRAM for the difference between what is billed to its electric customers and that which is authorized by the CPUC.

As required by the accounting guidance for alternative revenue programs, GSWC and BVESI are required to collect their WRAM and BRRAM balances, respectively, within 24 months following the year in which they are recorded. The CPUC has set the recovery period for under-collected balances that are up to 15% of adopted annual revenues at 18 months or less. For net WRAM under-collected balances greater than 15%, the recovery period is 19 to 36 months. As a result of the accounting guidance and CPUC-adopted recovery periods, Registrant must estimate if any WRAM and BRRAM revenues will be collected beyond the 24-month period. This can affect the timing of when such revenues are recognized.

ASUS's fixed-price contracts with the U.S. government are considered service concession arrangements under ASC 853 *Service Concession Arrangements*. Accordingly, the services under these contracts are accounted for under Topic 606 *Revenue from Contracts with Customers* and the water and/or wastewater systems are not recorded as Property, Plant and Equipment on Registrant's balance sheet. Revenues for ASUS's operations and maintenance contracts are recognized when services have been rendered to the U.S. government pursuant to the initial 50-year contract and additional contracts thereafter. Revenues from construction activities are recognized based on either the percentage-of-completion or cost-plus methods of



accounting. In accordance with GAAP, revenue recognition under these methods requires management to estimate the progress toward completion on a contract in terms of efforts, such as costs incurred. This approach is used because management considers it to be the best available measure of progress on these contracts. Changes in job performance, job conditions, change orders and estimated profitability, including those arising from any contract penalty provisions, and final contract settlements may result in revisions to costs and income, and are recognized in the period in which the revisions are determined. Unbilled receivables from the U.S. government represent amounts to be billed for construction work completed and/or for services rendered pursuant to the initial 50-year contract and additional contracts with the U.S. government, which are not presently billable but which will be billed under the terms of the contracts.

**Income Taxes** — Registrant's income tax calculations require estimates due principally to the regulated nature of the operations of GSWC and BVESI, the multiple states in which Registrant operates, and potential future tax rate changes. Registrant uses the asset and liability method of accounting for income taxes under which deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. Changes in regulatory treatment, or significant changes in tax-related estimates, assumptions or law, could have a material impact on the financial position and results of operations of Registrant.

As regulated utilities, GSWC and BVESI treat certain temporary differences as flow-through adjustments in computing their income tax expense consistent with the income tax approach approved by the CPUC for ratemaking purposes. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting decrease or increase occurring in another period. Giving effect to these temporary differences as flow-through adjustments typically results in a greater variance between the effective tax rate and the statutory federal income tax rate in any given period than would otherwise exist if GSWC or BVESI were not required to account for its income taxes as regulated enterprises. As of December 31, 2022, Registrant's total amount of unrecognized tax benefits was zero.

**Pension Benefits** — Registrant's pension benefit obligations and related costs are calculated using actuarial concepts within the framework of accounting guidance for employers' accounting for pensions and post-retirement benefits other than pensions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these critical assumptions annually. Other assumptions include employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase. The discount rate enables Registrant to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality, long-term corporate bond rate. Registrant's discount rates were determined by considering the average of pension yield curves constructed using a large population of high-quality corporate bonds. The resulting discount rates reflect the matching of plan liability cash flows to the yield curves. A lower discount rate increases the present value of benefit obligations and increases periodic pension expense. Conversely, a higher discount rate decreases the present value of benefit obligations and decreases periodic pension expense. To determine the expected long-term rate of return on the plan assets, Registrant considers the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on plan assets will increase pension expense. The long-term expected return on the pension plan's assets was 5.75% for 2022 and 6.00% for 2021.

For the pension plan obligation, Registrant increased the discount rate to 5.41% as of December 31, 2022 from 2.89% as of December 31, 2021 to reflect market interest-rate conditions at December 31, 2022. A hypothetical 25-basis point decrease in the assumed discount rate would have increased total net periodic pension expense for 2022 by approximately \$795,000, and would have increased the projected benefit obligation ("PBO") and accumulated benefit obligation ("ABO") at December 31, 2022 by a total of \$5.8 million. A 25-basis point decrease in the long-term return on pension-plan-asset assumption would have increased 2022 pension cost by approximately \$572,000.

In addition, changes in the fair value of plan assets will impact future pension cost and the Plan's funded status. Changes in market conditions can affect the value of plan assets held to fund future long-term pension benefits. Any reductions in the value of plan assets will result in increased future expense, an increase in the underfunded position, and increase the required future contributions.

The CPUC has authorized GSWC and BVESI to each maintain a two-way balancing account to track differences between their forecasted annual pension expenses adopted in rates and the actual annual expense to be recorded in accordance with the accounting guidance for pension costs. As of December 31, 2022, GSWC has a \$1.5 million over-collection in its two-way pension balancing account for the general office and water regions. As of December 31, 2022, BVESI has a \$496,000 over-collection in its two-way pension balancing account.

Funding requirements for qualified defined benefit pension plans are determined by government regulations. In establishing the contribution amount, Registrant has considered the potential impact of funding-rule changes under the Pension Protection Act of 2006. Registrant contributes the minimum required contribution as determined by government regulations or

the forecasted annual pension cost authorized by the CPUC and included in customer rates, whichever is higher. In accordance with this funding policy, for 2023, the pension contribution is expected to be approximately \$2.8 million. Any differences between the forecasted annual pension costs in rates and the actual pension costs are included in the two-way pension balancing accounts. Additionally, market factors can affect assumptions we use in determining funding requirements with respect to our pension plan. For example, a relatively modest change in our assumptions regarding discount rates can materially affect our calculation of funding requirements. To the extent that market data compels us to reduce the discount rate used in our assumptions, our benefit obligations could materially increase.

Changes in demographics, including increased numbers of retirees or increases in life expectancy assumptions may also increase the funding requirements of our obligations related to the pension plan. Mortality assumptions are a critical component of benefit obligation amounts and a key factor in determining the expected length of time for annuity payments. Assuming no changes in actuarial assumptions or plan amendments, the costs over the long term are expected to decrease due to the closure of Registrant's defined benefit pension plan to new employees as of January 1, 2011. Employees hired or rehired after December 31, 2010 are eligible to participate in a defined contribution plan instead of the pension plan.

**Liquidity and Capital Resources****AWR**

AWR's regulated business is capital intensive and requires considerable capital resources. A portion of these capital resources is provided by internally generated cash flows from operations. AWR anticipates that interest expense will increase in future periods due to the need for additional external capital to fund construction programs at its regulated utilities and as market interest rates increase. In addition, as the capital investment program continues to increase, coupled with the elimination of bonus depreciation for regulated utilities due to tax reform enacted in 2017, AWR and its subsidiaries anticipate they will need to access external financing more often. AWR believes that costs associated with capital used to fund construction at GSWC and BVESI will continue to be recovered through water and electric rates charged to customers.

AWR funds its operating expenses and pays dividends on its outstanding Common Shares primarily through dividends from its wholly owned subsidiaries. The ability of GSWC and BVESI to pay dividends to AWR is restricted by California law. Under these restrictions, approximately \$643.9 million was available for GSWC to pay dividends to AWR on December 31, 2022. Approximately \$64.9 million was available for BVESI to pay dividends to AWR as of December 31, 2022. ASUS's ability to pay dividends to AWR is dependent upon state laws in which each Military Utility Privatization Subsidiary operates, as well as ASUS's ability to pay dividends under California law.

When necessary, AWR obtains funds from external sources through the capital markets and from bank borrowings. Access to external financing on reasonable terms depends on the credit ratings of AWR and GSWC and current business conditions, including that of the water utility industry in general as well as conditions in the debt or equity capital markets.

AWR borrows under a revolving credit facility and provides funds to GSWC and ASUS in support of their operations through intercompany borrowing agreements. AWR's credit agreement expires in May 2023 and all intercompany borrowing agreements will expire concurrent with the expiration of AWR's credit facility. AWR intends to execute new intercompany borrowing agreements with its subsidiaries consistent with a new credit facility. On April 22, 2022, AWR's credit facility was amended to increase the borrowing capacity from \$200.0 million to \$280.0 million. The amendment also changed the benchmark interest rate from the London Interbank Offered Rate ("LIBOR") to the Secured Overnight Financing Rate ("SOFR"). The change in benchmark rates has not had a material impact on its financing costs. The interest rate charged to GSWC and ASUS is sufficient to cover AWR's interest expense under the credit facility.

Given that AWR's credit agreement will expire in May 2023, the outstanding borrowings under the credit facility of \$255.5 million as of December 31, 2022 have been classified as a current liability on AWR's Consolidated Balance Sheet, thus creating a negative working-capital condition for AWR of \$245.2 million. As further detailed below, on January 13, 2023, GSWC through a delayed-draw feature of its note purchase agreement, issued unsecured private placement notes totaling \$130.0 million. Also, in January 2023, GSWC used the proceeds to pay off \$129.0 million of outstanding borrowings as of December 31, 2022 under its intercompany borrowing arrangement with AWR. AWR then used the proceeds to pay off \$124.0 million of the outstanding borrowings under its credit facility thereby improving AWR's working-capital condition. As of March 1, 2023, AWR does not have sufficient liquidity or capital resources to repay its credit facility without extending its existing credit facility, entering into a new credit facility, or issuing new debt or equity.

Management plans to either renew and extend AWR's credit facility or to enter into a new credit facility prior to its expiration date, and is confident, given AWR's history in obtaining revolving credit facilities to meet its working-capital needs, that AWR will be able to do so with the needed borrowing capacities required to run its operations. In addition, AWR's plans included the issuance of long-term debt through GSWC during the fourth quarter of 2022, which it completed with the execution of a note purchase agreement in December 2022 for the issuance of unsecured private placement notes as discussed below. Management believes that execution of its plan is probable based on Registrant's ability to generate consistent cash flows, its A+ credit ratings, its relationships with lenders, and its history of successfully raising debt necessary to fund its operations as recently evidenced by the issuance of long-term debt at GSWC. Accordingly, management has concluded that AWR will be able to satisfy its obligations, including those under its credit facility, for at least the next twelve months from the issuance date of these financial statements. However, AWR's ability to access the capital markets or to otherwise obtain sufficient financing may be affected by future conditions and, accordingly, no assurances can be made that AWR will be successful in implementing its plan.

On December 15, 2022, GSWC executed a note purchase agreement for the issuance of unsecured private placement notes totaling \$130.0 million. The note purchase agreement included a delayed-draw feature. On January 13, 2023, GSWC requested the funds and issued (i) \$100.0 million aggregate principal amount of Series A Senior Notes at a coupon rate of 5.12% due January 31, 2033, and (ii) \$30.0 million aggregate principal amount of Series B Senior Notes at a coupon rate of 5.22% due January 31, 2038. Interest will be payable semiannually for both Series A and Series B notes.

BVESI has a separate \$35.0 million revolving credit facility without a parent guaranty, which was amended in December 2021 to reduce the interest rate and fees charged, as well as to extend the maturity date by a year to July 1, 2024. As of December 31, 2022, there were \$22.0 million outstanding borrowings under this facility. Under the terms of the credit agreement, BVESI has the option to increase the facility by an additional \$15.0 million, subject to lender approval. The CPUC requires BVESI to completely pay off all borrowings under its revolving credit facility within a 24-month period. BVESI's next pay-off period for its credit facility ends in September 2024.

On April 28, 2022, BVESI completed the issuance of \$35.0 million in unsecured private-placement notes consisting of \$17.5 million at a coupon rate of 4.548% due April 28, 2032 and \$17.5 million at a coupon rate of 4.949% due April 28, 2037. BVESI used the proceeds from the notes to pay down all amounts under its revolving credit facility outstanding at the time of issuing the notes. Interest on these notes is payable semiannually, and the covenant requirements under these notes are similar to the terms of BVESI's revolving credit facility.

During the first half of 2022, GSWC and BVESI continued to experience delinquent customer accounts receivable due to the lingering effects of the COVID-19 pandemic that has affected cash flows from operations. The CPUC's moratoriums on service disconnections for nonpayment for water and electric customers have ended and as a result, disconnections for delinquent residential customers resumed in June 2022. Thus far, the COVID-19 pandemic has not had a material impact on ASUS's current operations.

In January 2022, GSWC received \$9.5 million in COVID relief funds through the California Water and Wastewater Arrearage Payment Program to provide assistance to customers for their water debt accrued during the COVID-19 pandemic by remitting federal funds that the state received from the American Rescue Plan Act of 2021 to the utility on behalf of eligible customers. GSWC applied these funds to its delinquent customers' eligible balances. During 2022, BVESI received a total of \$473,000 from the state of California for similar customer relief funding for unpaid electric customer bills incurred during the pandemic.

In June 2022, Standard and Poor's Global Ratings ("S&P") affirmed an A+ credit rating for both AWR and GSWC. S&P also affirmed its negative outlook for both companies. S&P's debt ratings range from AAA (highest possible) to D (obligation is in default). In January 2023, Moody's Investors Service ("Moody's") affirmed its A2 rating with a stable outlook for GSWC. Securities ratings are not recommendations to buy, sell or hold a security, and are subject to change or withdrawal at any time by the rating agencies. Management believes that AWR's and GSWC's sound capital structures and A+ credit ratings, combined with its financial discipline, will enable AWR to access the debt and equity markets. However, unpredictable financial market conditions in the future may limit its access or impact the timing of when to access the market, in which case AWR may choose to temporarily reduce its capital spending.

AWR's ability to pay cash dividends on its Common Shares outstanding depends primarily upon cash flows from its subsidiaries. AWR intends to continue paying quarterly cash dividends on or about March 1, June 1, September 1 and December 1, subject to earnings and financial conditions, regulatory requirements and such other factors as the Board of Directors may deem relevant. On February 7, 2023, AWR's Board of Directors approved a first quarter dividend of \$0.3975 per share on AWR's Common Shares. Dividends on the Common Shares will be paid on March 1, 2023 to shareholders of record at the close of business on February 21, 2023. AWR has paid common dividends every year since 1931, and has increased the dividends received by shareholders each calendar year for 68 consecutive years, which places it in an exclusive group of companies on the New York Stock Exchange that have achieved that result. AWR has achieved a 9.2% compound annual growth rate in its annual dividend payments from 2012 – 2022. AWR's current policy is to achieve a compound annual growth rate in the dividend of more than 7% over the long-term.

#### Cash Flows from Operating Activities:

Cash flows from operating activities have generally provided sufficient cash to fund operating requirements, including a portion of construction expenditures at GSWC and BVESI, and construction expenses at ASUS, and to pay dividends. AWR's future cash flows from operating activities are expected to be affected by a number of factors, including utility regulation; changes in tax law; maintenance expenses; inflation; compliance with environmental, health and safety standards; production costs; customer growth; per-customer usage of water and electricity; weather and seasonality; conservation efforts; compliance with local governmental requirements, including mandatory restrictions on water use; the lingering effects of the COVID-19 pandemic on its customers' ability to pay utility bills; and required cash contributions to pension and post-retirement plans. Future cash flows from contracted services subsidiaries will depend on new business activities, existing operations, the construction of new and/or replacement infrastructure at military bases, timely economic price and equitable adjustment of prices, and timely collection of payments from the U.S. government and other prime contractors operating at the military bases, and any adjustments arising out of an audit or investigation by federal governmental agencies.

ASUS funds its operating expenses primarily through internal operating sources, which include U.S. government funding under contracts with the U.S. government for operations and maintenance costs and construction activities, as well as

investments by, or loans from, AWR. ASUS, in turn, provides funding to its subsidiaries. ASUS's subsidiaries may also from time to time provide funding to ASUS or other subsidiaries of ASUS.

Cash flows from operating activities are primarily generated by net income, adjusted for non-cash expenses such as depreciation and amortization, and deferred income taxes. Cash generated by operations varies during the year. Net cash provided by operating activities of AWR was \$117.8 million for 2022 as compared to \$115.6 million for the same period in 2021. During 2022, GSWC and BVESI received \$9.5 million and \$473,000, respectively, in COVID-19 relief funds from the state of California to provide assistance to customers for delinquent water and electric customer bills incurred during the pandemic. The increase in operating cash flow was also due to differences in the timing of vendor payments and income tax paid between the two periods, as well as the timing of billing of and cash receipts for construction work at military bases. The billings (and cash receipts) for this construction work generally occur at completion of the work or in accordance with a billing schedule contractually agreed to with the U.S. government and/or other prime contractors. Thus, cash flow from construction-related activities may fluctuate from period to period with such fluctuations representing timing differences of when the work is being performed and when the cash is received for payment of the work.

The increases in cash flows from operations discussed above were partially offset by a decrease in customer cash collections resulting from decreased water consumption brought about by drought conditions and water use restrictions. These under-collections are being captured in the 2022 WRAM. Furthermore, the delay in the water general rate case decision has negatively affected cash flows from operating activities as billed revenues in 2022 have been based on 2021's adopted customer rates while operating expenses have continued to increase.

The timing of cash receipts and disbursements related to other working capital items also affected the change in net cash provided by operating activities.

#### Cash Flows from Investing Activities:

Net cash used in investing activities was \$167.1 million for the year ended December 31, 2022 as compared to \$145.1 million for the same period in 2021, which is mostly related to capital expenditures at the regulated utilities. AWR invests capital to provide essential services to its regulated customer base, while working with the CPUC to have the opportunity to earn a fair rate of return on investment. AWR's infrastructure investment plan consists of both infrastructure renewal programs (to replace infrastructure, including those to mitigate wildfire risk) and major capital investment projects (to construct new water treatment, supply and delivery facilities). The regulated utilities may also be required from time to time to relocate existing infrastructure in order to accommodate local infrastructure improvement projects. Projected capital expenditures and other investments are subject to periodic review and revision.

For the year 2023, the regulated utilities' company-funded capital expenditures are expected to be between \$140 million and \$160 million, barring any delays resulting from changes in capital improvement schedules due to supply-chain issues or any continued lingering effects of the COVID-19 pandemic.

#### Cash Flows from Financing Activities:

AWR's financing activities include primarily: (i) the proceeds from the issuance of Common Shares, (ii) the issuance and repayment of long-term debt and notes payable to banks, and (iii) the payment of dividends on Common Shares. In order to finance new infrastructure, GSWC also receives customer advances (net of refunds) for, and contributions in aid of, construction. Borrowings on AWR's and BVESI's credit facilities are used to fund GSWC and BVESI capital expenditures, respectively, until long-term financing is arranged. Overall debt levels are expected to increase to fund a portion of the costs of the capital expenditures that will be made by the regulated utilities.

Net cash provided by financing activities was \$50.3 million for the year ended December 31, 2022 as compared to cash used of \$2.3 million for 2021. The increase in cash provided by financing activities in 2022 was due, in part, to the issuance by BVESI of new unsecured private-placement notes totaling \$35.0 million. The proceeds were used to pay down outstanding borrowings under BVESI's credit facility. In addition, during 2021, cash was used for the early redemption of GSWC's 9.56% private-placement notes in the amount of \$28.0 million in May 2021. During the year ended December 31, 2022, AWR had a net increase in borrowings on its credit facilities of \$72.0 million to support operations and capital expenditures. During 2021, AWR had a net increase in borrowings on its credit facilities of \$71.3 million.

#### **GSWC**

GSWC funds its operating expenses, payments on its debt, dividends on its outstanding common shares, and a portion of its construction expenditures through internal sources. Internal sources of cash flow are provided primarily by retention of a portion of earnings from operating activities. Internal cash generation is influenced by factors such as weather patterns, conservation efforts, environmental regulation, litigation, changes in tax law and deferred taxes, changes in supply costs and regulatory decisions affecting GSWC's ability to recover these supply costs, timing of rate relief, increases in maintenance expenses and capital expenditures, surcharges authorized by the CPUC to enable GSWC to recover expenses previously

incurred from customers, and CPUC requirements to refund amounts previously charged to customers. Internal cash flows may also be impacted by delays in receiving payments from GSWC customers due to the lingering effects of the COVID-19 pandemic.

GSWC may, at times, utilize external sources for long-term financing, as well as obtain funds from equity investments and intercompany borrowings from its parent, AWR, to help fund a portion of its operations and construction expenditures. AWR borrows under a revolving credit facility and provides funds to GSWC in support of its operations under intercompany borrowing arrangements. On April 22, 2022, the AWR credit facility was amended to increase the borrowing capacity from \$200.0 million to \$280.0 million, which provided an increase in GSWC's borrowing capacity under its intercompany borrowing agreement. All intercompany borrowing agreements expire concurrent with the expiration of AWR's credit facility in May 2023. AWR intends to execute a new intercompany borrowing agreement with GSWC consistent with a new credit facility. As of December 31, 2022, GSWC had \$129.0 million outstanding under its intercompany borrowing arrangement with AWR. The CPUC requires GSWC to completely pay off all intercompany borrowings with AWR within a 24-month period. On January 31, 2023, GSWC used the proceeds from the issuance of equity to AWR and from the issuance of long-term debt discussed below to pay-off all of its intercompany borrowing from AWR.

On December 15, 2022, GSWC executed a note purchase agreement for the issuance of unsecured private placement notes totaling \$130.0 million. The note purchase agreement includes a delayed-draw feature that allows for the sale and purchase of the notes to occur on a business day on or prior to March 1, 2023. On January 13, 2023, GSWC, through the delayed-draw feature, requested and issued unsecured private placement notes totaling \$130.0 million. GSWC used the proceeds to pay off the majority of outstanding borrowings under the intercompany borrowing arrangement with AWR.

In addition, GSWC receives advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are generally refundable at a rate of 2.5% in equal annual installments over 40 years. Utility plant funded by advances and contributions is excluded from rate base. GSWC amortizes contributions in aid of construction at the same composite rate of depreciation for the related property.

#### Cash Flows from Operating Activities:

Net cash provided by operating activities was \$94.5 million for the year ended December 31, 2022 as compared to \$100.3 million for 2021. The overall decrease in GSWC's cash flows from operations was largely due to a decrease in customer cash collections resulting from decreased water consumption brought about by drought conditions and water use restrictions. These under-collections are being captured in the 2022 WRAM balances. Furthermore, the delay in the water general rate case decision has negatively affected cash flows from operating activities as billed revenues in 2022 have been based on 2021's adopted customer rates while operating expenses have continued to increase. These decreases were partially offset by state relief funds. During the first quarter of 2022, GSWC received \$9.5 million in COVID-19 relief funds from the state of California to provide assistance to customers for delinquent water customer bills incurred during the pandemic. The decrease was also partially offset by differences in the timing of vendor payments and income tax paid between the two periods. The timing of cash receipts and disbursements related to other working capital items also affected the change in net cash provided by operating activities.

#### Cash Flows from Investing Activities:

Net cash used in investing activities was \$147.7 million for the year ended December 31, 2022 as compared to \$124.3 million for 2021, which is mostly related to spending under GSWC's infrastructure investment plans that are consistent with capital budgets authorized in its general rate cases.

AWR issued an interest-bearing promissory note to GSWC that expires in May 2023, and that allows AWR to borrow amounts up to \$30.0 million for working-capital purposes. During 2021, AWR borrowed and subsequently repaid \$26.0 million under the terms of the note. During 2022, there were no borrowings under this arrangement.

#### Cash Flows from Financing Activities:

Net cash provided by financing activities was \$53.1 million for the year ended December 31, 2022 as compared to \$11.1 million net cash used for 2021. The higher cash used for financing activities in 2021 was largely due to the early redemption of GSWC's 9.56% private-placement notes in the amount of \$28.0 million in May 2021. During the year ended December 31, 2022, GSWC had an increase in net intercompany borrowings of \$80.0 million from AWR parent to support its operations and capital expenditures. During the year ended December 31, 2021, GSWC had an increase in net intercompany borrowings of \$49.0 million from AWR parent. The CPUC requires GSWC to fully pay off all intercompany borrowings it has from AWR within a 24-month period.

Contractual Obligations and Commitments

Registrant has various contractual obligations, which are recorded as liabilities in the consolidated financial statements. Other items, such as certain purchase commitments, are not recognized as liabilities in the consolidated financial statements but are required to be disclosed. In addition to contractual maturities, Registrant has certain debt instruments that contain annual sinking funds or other principal payments. Registrant believes that it will be able to refinance debt instruments at their maturity through public issuance or private placement of debt or equity. Annual payments to service debt are generally made from cash flows from operations.

The following table reflects Registrant's contractual obligations and commitments to make future payments pursuant to contracts as of December 31, 2022. The table reflects only financial obligations and commitments. Therefore, performance obligations associated with our initial 50-year firm, fixed-price contract and additional firm fixed-price contracts with the U.S. government at our contracted services segment are not included in the amounts below. Registrant believes that it will be able to refinance debt instruments at their maturity through public issuance or private placement of debt or equity. Annual payments to service debt are generally made from cash flows from operations.

| (\$ in thousands)                     | Payments/Commitments Due (1) |                   |
|---------------------------------------|------------------------------|-------------------|
|                                       | Total                        | Less than 1 Year  |
| Notes/Debentures (2)                  | \$ 187,000                   | \$ —              |
| Private Placement Notes (3)           | 250,000                      | —                 |
| Tax-Exempt Obligations (4)            | 10,564                       | 178               |
| Other Debt Instruments (5)            | 2,809                        | 221               |
| <b>Total AWR Long-Term Debt</b>       | <b>\$ 450,373</b>            | <b>\$ 399</b>     |
| Credit Facilities (6)                 | \$ 277,500                   | \$ 255,500        |
| Interest on Long-Term Debt (7)        | 227,661                      | 21,846            |
| Advances for Construction (8)         | 67,967                       | 3,617             |
| Renewable Energy Credit Agreement (9) | 619                          | 619               |
| Purchased Power Contracts (10)        | 8,966                        | 4,906             |
| Capital Expenditures (11)             | 94,991                       | 94,991            |
| Water Purchase Agreements (12)        | 3,066                        | 459               |
| Operating Leases (13)                 | 11,087                       | 2,256             |
| Employer Contributions (14)           | 2,800                        | 2,800             |
| <b>SUB-TOTAL</b>                      | <b>694,657</b>               | <b>386,994</b>    |
| Other Commitments (15)                | 10,743                       | —                 |
| <b>TOTAL</b>                          | <b>\$ 1,155,773</b>          | <b>\$ 387,393</b> |

(1) Excludes dividends and facility fees.

(2) The notes and debentures have been issued by GSWC under an Indenture dated September 1, 1993, as amended in December 2008. The notes and debentures do not contain any financial covenants that Registrant believes to be material or any cross-default provisions.

(3) Consists of GSWC senior private placement notes of \$215.0 million and BVESI unsecured private placement notes of \$35.0 million totaling \$250.0 million issued to various banks, including \$160.0 million of unsecured private placement notes issued in July 2020 by GSWC and \$35.0 million of unsecured private placement notes issued by BVESI in April 2022. Under the terms of each of the senior notes, GSWC may not incur any additional debt or pay any distributions to its shareholders if, after giving effect thereto, it would have a debt to capitalization ratio in excess of 0.6667-to-1 or a debt to earnings before interest, taxes, depreciation and amortization ratio of more than 8-to-1. GSWC is in compliance with all of its covenant provisions as of December 31, 2022. GSWC does not currently have any outstanding mortgages or other liens on indebtedness on its properties.

(4) Consists of obligations at GSWC related to (i) a loan agreement supporting \$7.7 million in outstanding debt issued by the California Pollution Control Financing Authority, and (ii) \$2.8 million of obligations with respect to GSWC's 500 acre-foot entitlement to water from the State Water Project ("SWP"). These obligations do not contain any financial covenants

believed to be material to Registrant or any cross-default provisions. In regard to its SWP entitlement, GSWC has entered into agreements with various developers for a portion of its 500 acre-foot entitlement to water from the SWP.

- (5) Consists of the outstanding debt portion of funds received under the American Recovery and Reinvestment Act for reimbursements of capital costs related to the installation of meters for conversion of non-metered service to metered service in GSWC's Arden-Cordova District.
- (6) Credit facilities consists of (i) a \$280.0 million revolving credit facility under AWR, of which \$255.5 million was outstanding as of December 31, 2022; and (ii) a \$35.0 million revolving credit facility under BVESI, of which \$22.0 million was outstanding as of December 31, 2022.
- (7) Consists of expected interest expense payments based on the assumption that GSWC's long-term debt remains outstanding until maturity.
- (8) Advances for construction represent contract refunds mostly from GSWC to developers for the cost of water systems paid for by the developers. The advances are generally refundable in equal annual installments over 40-year periods.
- (9) Consists of an agreement by BVESI to purchase renewable energy credits through 2023. These renewable energy credits are used to meet California's renewables portfolio standard.
- (10) Consists of BVESI fixed-cost purchased power contracts executed in September 2019 with Morgan Stanley Capital Group Inc.
- (11) Consists primarily of capital expenditures estimated to be required under signed contracts at GSWC and BVESI as of December 31, 2022.
- (12) Water purchase agreements consist of (i) a remaining amount of \$1.5 million under an agreement expiring in 2028 to use water rights from a third party, and (ii) an aggregate amount of \$1.6 million of other water purchase commitments with other third parties, which expire between 2025 through 2038.
- (13) Reflects future minimum payments under noncancelable operating leases for both GSWC and ASUS.
- (14) Consists of expected contributions to Registrant's defined benefit pension plan for the year 2023. Contributions to the pension plan are expected to be the higher of the minimum required contributions under the Employee Retirement Income Security Act ("ERISA") or the amounts that are recovered in customer rates and approved by the CPUC. These amounts are estimates and are subject to change based on, among other things, the limits established for federal tax deductibility (pension plan) and the significant impact that returns on plan assets and changes in discount rates have on such amounts.
- (15) Other commitments consist primarily of (i) \$10.1 million in asset retirement obligations of GSWC that reflect the retirement of wells by GSWC, which by law need to be properly capped at the time of removal; (ii) irrevocable letters of credit in the amount of \$624,600 for the deductible in Registrant's business automobile insurance policies; and (iii) a \$15,000 irrevocable letter of credit issued on behalf of GSWC pursuant to a franchise agreement with the City of Rancho Cordova. All of the letters of credit are issued pursuant to AWR's revolving credit facility.

#### **BVESI Power-Supply Arrangements**

BVESI purchased power pursuant to purchased power contracts approved by the CPUC effective in the fourth quarter of 2019 at a fixed cost over three and five-year terms depending on the amount of power and period during which the power is purchased under the contracts. In addition to the purchased power contracts, BVESI buys additional energy to meet peak demand as needed and sells surplus power when necessary. BVESI is pursuing short- and long-term renewable energy contracts to replace any power purchase agreements that have expired in addition to satisfying its requirements related to its resource portfolio for the next compliance period (2021-2024) and beyond. The average price per MWh, including fixed costs, increased to \$97.89 per MWh in 2022 from \$71.94 per MWh in 2021. However, BVESI has an electric-supply-cost balancing account, as approved by the CPUC, to alleviate any impacts to earnings.

#### **Construction Program**

GSWC maintains an ongoing water distribution main replacement program throughout its customer service areas based on the age and type of distribution-system materials, priority of leaks detected, remaining productive life of the distribution system and an underlying replacement schedule. In addition, GSWC and BVESI upgrade their facilities in accordance with industry standards, local and CPUC requirements, and new legislation. California requires investor-owned electric utilities to submit an annual wildfire mitigation plan to the CPUC for approval, and requires all electric utilities to prepare plans on constructing, maintaining, and operating their electrical lines and equipment to minimize the risk of catastrophic wildfires.



As of December 31, 2022, GSWC and BVESI have unconditional purchase obligations for capital projects of approximately \$95.0 million. During the years ended December 31, 2022, 2021 and 2020, GSWC and BVESI had capital expenditures of \$174.3 million, \$150.6 million and \$130.4 million, respectively. A portion of these capital expenditures was funded by developers through contributions in aid of construction, which are not required to be repaid, and refundable advances. During the years ended December 31, 2022, 2021 and 2020, capital expenditures funded by developers were \$6.9 million, \$8.0 million and \$7.0 million, respectively. During 2023, the water and electric segments' company-funded capital expenditures are estimated to be approximately \$140 – \$160 million, barring any delays resulting from changes in capital improvement schedules due to supply chain issues or the effects of the COVID-19 pandemic. These amounts include approximately \$13.6 million estimated to be spent by BVESI on wildfire mitigation projects.

### **Contracted Services**

Under the terms of the current and future utility privatization contracts with the U.S. government, each contract's price is subject to an economic price adjustment ("EPA") on an annual basis. In the event that ASUS (i) is managing more assets at specific military bases than were included in the U.S. government's request for proposal, (ii) is managing assets that are in substandard condition as compared to what was disclosed in the request for proposal, (iii) prudently incurs costs not contemplated under the terms of the utility privatization contract, and/or (iv) becomes subject to new regulatory requirements, such as more stringent water-quality standards, ASUS is permitted to file, and has filed, requests for equitable adjustment ("REAs"). The timely filing for and receipt of EPAs and/or REAs continues to be critical in order for the Military Utility Privatization Subsidiaries to recover increasing costs of operating, maintaining, renewing and replacing the water and/or wastewater systems at the military bases it serves.

During sequestration or automatic spending cuts, the Military Utility Privatization Subsidiaries did not experience any earnings impact to their existing operations and maintenance and renewal and replacement services, as utility privatization contracts are an "excepted service." With the expiration of sequestration, similar issues including further sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act may arise as part of the fiscal uncertainty and/or future debt-ceiling limits imposed by Congress. Any future impact on ASUS and its operations through the Military Utility Privatization Subsidiaries will likely be limited to (a) the timing of funding to pay for services rendered, (b) delays in the processing of EPAs and/or REAs, (c) the timing of the issuance of contract modifications for new construction work not already funded by the U.S. Government, and/or (d) delays in solicitation for and/or awarding of new contracts under the Department of Defense utility privatization program.

At times, the DCAA and/or the DCMA may, at the request of a contracting officer, perform audits/reviews of contractors for compliance with certain government guidance and regulations, such as the Federal Acquisition Regulations and Defense Federal Acquisition Regulation Supplements. Certain audit/review findings, such as system deficiencies for government-contract-business-system requirements, may result in delays in the resolution of filings submitted to and/or the ability to file new proposals with the U.S. government.

Below is a summary of current and projected EPA filings for price adjustments to operations and maintenance fees and renewal and replacement fees for the Military Utility Privatization Subsidiaries in fiscal 2023.

| <b>Military Base</b>  | <b>EPA period</b>             | <b>Filing Date</b>    |
|---|-------------------------------|-----------------------|
| Fort Bliss (FBWS)   | October 2022 - September 2023 | Third Quarter 2022    |
| Joint Base Andrews (TUS)  | February 2023 - January 2024  | Fourth Quarter 2022   |
| Fort Lee (ODUS)   | February 2023 - January 2024  | Fourth Quarter 2022   |
| Joint Base Langley Eustis and Joint Expeditionary Base Little Creek Fort Story (ODUS) | April 2023 - March 2024       | First Quarter of 2023 |
| Fort Jackson (PSUS)   | February 2023 - January 2024  | Fourth Quarter 2022   |
| Fort Bragg (ONUS)   | March 2023 - February 2024    | First Quarter 2023    |
| Eglin Air Force Base (ECUS)   | June 2023 - May 2024          | Second Quarter 2023   |
| Fort Riley (FRUS)   | July 2023 - June 2024         | Second Quarter 2023   |

## Regulatory Matters

A discussion on various regulatory matters is included in the section titled “Overview” in this Form 10-K’s “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The discussion below focuses on other regulatory matters and developments.

### *Certificates of Public Convenience and Necessity*

GSWC and BVESI hold Certificates of Public Convenience and Necessity (“CPCN”) granted by the CPUC in each of the ratemaking areas they serve. ASUS is regulated, if applicable, by the state in which it primarily conducts water and/or wastewater operations. FBWS holds a CPCN from the Public Utilities Commission of Texas. The Virginia State Corporation Commission exercises jurisdiction over ODUS as a public service company. The Maryland Public Service Commission approved the right of TUS to operate as a water and wastewater utility at Joint Base Andrews, Maryland, based on certain conditions. The South Carolina Public Service Commission exercises jurisdiction over PSUS as a public service company. ONUS is regulated by the North Carolina Public Service Commission. ECUS and FRUS are not subject to regulation by their respective states’ utility commissions.

GSWC and BVESI are subject to regulation by the CPUC which has broad authority over service and facilities, rates, classification of accounts, valuation of properties, the purchase, disposition and mortgaging of properties necessary or useful in rendering public utility service, the issuance of securities, the granting of certificates of public convenience and necessity as to the extension of services and facilities and various other matters.

Rates that GSWC and BVESI are authorized to charge are determined by the CPUC in general rate cases and are derived using rate base, cost of service and cost of capital, as projected for a future test year. Rates charged to customers vary according to customer class and rate jurisdiction and are generally set at levels allowing for recovery of prudently incurred costs, including a fair return on rate base. Rate base generally consists of the original cost of utility plant in service, plus certain other assets, such as working capital and inventory, less accumulated depreciation on utility plant in service, deferred income tax liabilities and certain other deductions.

GSWC is required to file a water general rate case application every three years according to a schedule established by the CPUC. General rate cases typically include an increase in the first test year with inflation-rate adjustments for expenses for the second and third years of the rate case cycle. For capital projects, there are two test years. Rates are based on a forecast of expenses and capital costs for each test year. GSWC’s cost of capital is determined in a separate proceeding. Investor-owned water utilities serving California are required to file their cost of capital applications on a triennial basis. BVESI’s general rate cases are typically filed every four years. Rates may also be increased by offsets for certain expense increases, including, but not limited to, supply-cost offset and balancing-account amortization, advice letter filings related to certain plant additions and other operating cost increases.

Neither the operations of AWR nor the operations and rates of ASUS are directly regulated by the CPUC. The CPUC does, however, regulate certain transactions between GSWC, BVESI and ASUS and between GSWC and BVESI and AWR.

### *General Rate Cases and Other Regulatory Matters*

#### Water Segment

##### *Recent Changes in Rates:*

Rates that GSWC is authorized to charge are determined by the CPUC in general rate cases. GSWC has a pending general rate case that will determine new water rates for the years 2022–2024. In November 2021, GSWC and Public Advocates filed with the CPUC a joint motion to adopt a settlement agreement between GSWC and Public Advocates on this general rate case application. Pending a final decision on this general rate case, GSWC filed with the CPUC for interim rates, which will make the new 2022 rates, once approved in a CPUC final decision, effective January 1, 2022. Due to the delay in finalizing the water general rate case, water revenues billed and recorded during the year ended December 31, 2022 were based on 2021 adopted rates, pending a final decision by the CPUC on this general rate case application. When approved, the new rates will be retroactive to January 1, 2022 and cumulative adjustments will be recorded upon receiving a decision by the CPUC that approves the settlement agreement.

Among other things, the settlement authorizes GSWC to complete certain advice letter capital projects approved in the last general rate case, which have been completed for a total capital investment of \$9.4 million. The additional annual revenue requirements generated from these capital investments total \$1.2 million and became effective February 15, 2022.

##### *Pending Cost of Capital Proceeding:*

GSWC also has a pending cost of capital proceeding that will determine a new return on rate base for the years 2022 – 2024. While this proceeding is pending, the previously authorized return is presently being billed to water customers during 2022 until a final decision is issued in this proceeding. However, based on management’s analysis of this regulatory

proceeding and associated accounting to date, for the year ended December 31, 2022, GSWC reduced revenues by \$6.4 million and recorded a corresponding regulatory liability for revenues subject to refund based on its best estimate at this time, which includes the impact of GSWC's lower cost of debt requested in its application. However, management cannot predict the ultimate outcome of the cost of capital application and the associated impact on 2022 revenues. Changes in estimates will be made, if necessary, as more information in this proceeding becomes available.

In the pending cost of capital proceeding, GSWC requested authorization to continue the Water Cost of Capital Mechanism ("WCCM"). The WCCM adjusts return on equity and rate of return on rate base between the three-year cost of capital proceedings only if there is a positive or negative change of more than 100 basis points in the average of the Moody's Aa utility bond rate as measured over the period October 1 through September 30. If there is a positive or negative change of more than 100 basis points, the return on equity is adjusted by one half of the difference. For the period from October 1, 2021 through September 30, 2022, the Moody's rate increased by more than 100 basis points from the benchmark, which triggered the WCCM adjustment. The WCCM is expected to be addressed by the CPUC in the pending proposed decision.

### Electric Segment

#### *Recent Changes in Rates*

In August 2019, the CPUC issued a final decision on the electric segment's general rate case which, among other things, increases adopted revenues by \$1.0 million for 2022. On August 30, 2022, BVESI filed a new general rate case application with the CPUC to determine new rates for the years 2023 – 2026. On December 15, 2022, the CPUC approved a decision for BVESI to establish a general rate case memorandum account that makes the new 2023 rates effective and retroactive to January 1, 2023.

#### *Vegetation Management, Wildfire Mitigation Plans and Legislation*

The CPUC adopted regulations intended to enhance the fire safety of overhead electric power lines. Those regulations included increased minimum clearances around electric power lines. BVESI was authorized to track incremental costs incurred to implement the regulations in a fire hazard prevention memorandum account for the purpose of obtaining cost recovery in a future general rate case. The August 2019 final decision also authorized BVESI to record incremental costs related to vegetation management, such as costs for increased minimum clearances around electric power lines, in the CPUC-approved memorandum account for future recovery. As of December 31, 2022, BVESI had approximately \$8.7 million in incremental vegetation management costs recorded as a regulatory asset. As part of its general rate case application filing with the CPUC in August 2022, BVESI requested recovery of the costs accumulated in this memorandum account as of March 31, 2022.

California legislation enacted in September 2018 requires all investor-owned electric utilities to have a wildfire mitigation plan ("WMP") approved by the Office of Energy Infrastructure Safety ("OEIS") and ratified by the CPUC. The WMP must include a utility's plans on constructing, maintaining, and operating its electrical lines and equipment to minimize the risk of catastrophic wildfire. BVESI submitted an update to its WMP in May 2022 to OEIS for approval prior to going to the CPUC for ratification. In December 2022, OEIS issued a final decision of approval to BVESI for its 2022 WMP update. In February 2023, the CPUC ratified BVESI's current WMP. As of December 31, 2022, BVESI has approximately \$4.3 million related to expenses accumulated in its WMP memorandum accounts that have been recognized as regulatory assets for future recovery. All capital expenditures and other costs incurred through December 31, 2022 as a result of BVESI's WMPs are not currently in rates and have been filed for future recovery in BVESI's general rate case application in August 2022.

Additionally, the governor of California approved Assembly Bill ("AB") 1054 in July 2019 that, among other things, changed the burden of proof applicable in CPUC proceedings in which an electric utility with a valid safety certification seeks to recover wildfire costs. Previously, an electric utility seeking to recover costs had the burden to prove that it acted reasonably. Under AB 1054, if an electric utility has a valid safety certification, it will be presumed to have acted reasonably unless a party to the relevant proceeding creates a "serious doubt" as to the reasonableness of the utility's conduct. In September 2021, OEIS under the California Natural Resources Agency approved BVESI's latest safety certification filing, which is valid until BVESI's pending safety certification is approved or disapproved. In December 2022, OEIS issued a renewal of its safety certification to BVESI.

For more information regarding significant regulatory matters, see [Note 3](#) of "Notes to Financial Statements" included in Part II, Item 8, in Financial Statements and Supplementary Data.

### Environmental Matters

AWR's subsidiaries are subject to stringent environmental regulations. GSWC is required to comply with the safe drinking water standards established by the U.S. Environmental Protection Agency ("U.S. EPA") and the Division of Drinking Water ("DDW"), under the State Water Resources Control Board ("SWRCB"). The U.S. EPA regulates contaminants that may have adverse health effects that are known or likely to occur at levels of public health concern, and the regulation of which will

provide a meaningful opportunity for health risk reduction. The DDW, acting on behalf of the U.S. EPA, administers the U.S. EPA's program in California. Similar state agencies administer these rules in the other states in which Registrant operates.

GSWC currently tests its water supplies and water systems according to, among other things, requirements listed in the Federal Safe Drinking Water Act ("SDWA"). GSWC works proactively with third parties and governmental agencies to address issues relating to known contamination threatening GSWC water sources. GSWC also incurs operating costs for testing to determine the levels, if any, of the constituents in its sources of supply, and additional expense to treat contaminants in order to meet the federal and state maximum contaminant level standards and consumer demands. GSWC expects to incur additional capital costs as well as increased operating costs to maintain or improve the quality of water delivered to its customers in light of anticipated stress on water resources associated with watershed and aquifer pollution, drought impacts, as well as to meet future water quality standards and consumer expectations. The CPUC ratemaking process provides GSWC with the opportunity to recover prudently incurred capital and operating costs in future filings associated with achieving water quality standards. Management believes that such incurred and expected future costs should be authorized for recovery by the CPUC.

#### Drinking Water Notification Levels

In July 2018, DDW issued drinking water notification levels for certain fluorinated organic chemicals used to make certain fabrics and other materials, and used in various industrial processes. These chemicals were also present in certain fire suppression agents. These chemicals are referred to as perfluoroalkyl substances ("PFAS"). Notification levels are health-based advisory levels established for contaminants in drinking water for which maximum contaminant levels have not been established. The U.S. EPA has also established health advisory levels for these compounds. Notification to consumers and stakeholders is required when the advisory levels or notification levels are exceeded. Assembly Bill 756, signed into law in July 2019 and effective in January 2020, requires, among other things, additional notifications by water systems when they detect levels of PFAS above response levels.

GSWC is in the process of collecting and analyzing samples for PFAS under the direction of DDW. GSWC has removed some wells from service, and expects to incur additional costs to treat impacted wells. GSWC has provided customers with information regarding PFAS detection, and provided updated information via its website. In February 2020, DDW established new response levels for two of the PFAS compounds: 10 parts per trillion ("ppt") for perfluorooctanoic acid ("PFOA") and 40 ppt for perfluorooctanesulfonic acid ("PFOS"). In March 2021, DDW issued drinking-water notification and response levels of 0.5 parts per billion ("ppb") and 5 ppb, respectively, for perfluorobutane sulfonic acid ("PFBS"). In June 2022, the U.S. EPA issued interim updated drinking-water health advisories for PFOA and PFOS, and also issued final health advisories for PFBS and other compounds known as GenX chemicals. In October 2022, DDW issued drinking-water notification and response levels of 3 parts per trillion ("ppt") and 20 ppt, respectively, for perfluorohexane sulfonic acid ("PFHxS"). Through these health advisories, the U.S. EPA has set levels at extremely low amounts, especially for PFOA and PFOS. This potentially may have an impact on the final maximum contaminant levels ("MCL") that the U.S. EPA may require in the near future. Lower MCL levels are expected to be promulgated in 2023/2024 and depending on how low the levels are set, these new requirements will likely increase GSWC's water treatment and other operating costs.

#### Matters Relating to Environmental Cleanup

GSWC has been involved in environmental remediation and cleanup at one of its plant sites 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. Analysis indicates that off-site monitoring wells may be necessary to document effectiveness of remediation.

As of December 31, 2022, the total amount spent to clean up and remediate GSWC's plant facility was approximately \$6.2 million, of which \$1.5 million has been paid by the State of California Underground Storage Tank Fund. Amounts paid by GSWC have been included in rate base and approved by the CPUC for recovery. As of December 31, 2022, GSWC has a regulatory asset and an accrued liability for the estimated additional cost of \$1.3 million to complete the cleanup at the site. The estimate includes costs for continued activities of groundwater cleanup and monitoring, future soil treatment, and site closure related activities. 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 estimated additional costs will be approved in rate base by the CPUC.

#### Lead and Copper Rule Revisions

On December 16, 2021, the U.S. EPA announced the Lead and Copper Rule Revisions under an executive order with a compliance date of October 16, 2024. Additionally, the EPA announced its intention to develop a new proposed rule, the Lead and Copper Rule Improvements ("LCRI") that will further strengthen the regulatory framework prior to the October 2024 compliance date. There are still many unknowns regarding the implementation of the rule. Some of the LCRI requirements may include timely replacement of customer lead service lines, corrosion control treatment, revised lead action levels, customer communications, etc. The details of the requirements will be better understood over the next year once the LCRI is published and a final rule is approved.

### Matters Relating to Military Utility Privatization Contracts

Each of the Military Utility Privatization Subsidiaries is responsible for testing the water and wastewater systems on the military bases on which it operates in accordance with applicable law.

Each of the Military Utility Privatization Subsidiaries has the right to seek an equitable adjustment to its contract in the event that there are changes in environmental laws, a change in the quality of water used in providing water service or wastewater discharged by the U.S. government, or contamination of the air or soil not caused by the fault or negligence of the Military Utility Privatization Subsidiary. These changes can impact operations and maintenance and renewal and replacement costs under the contracts. The U.S. government is responsible for environmental contamination due to its fault or negligence and for environmental contamination that occurred prior to the execution of a contract.

### Security Issues

We have physical and information security policies throughout our operations. Training on these matters begins during employee orientation and is ongoing through a series of training courses in addition to periodic, unannounced training exercises. We collaborate with various agencies, associations and third parties regarding information on possible threats and security measures for our operations. Risk assessments are conducted periodically to evaluate the effectiveness of existing security controls. These assessments provide areas for additional security focus, new controls, and policy changes.

Both GSWC and BVESI have security systems and infrastructure in place intended to prevent unlawful intrusion, service disruption and cyber-attacks. GSWC and BVESI utilize a variety of physical security measures to protect their facilities. These measures consider advances in security and emergency preparedness technology and relevant industry developments in developing their respective capital-improvement plans, and both intend to seek approval of the CPUC to recover any additional costs that either may incur in enhancing the security, reliability and resiliency of their utility systems.

On October 23, 2018, America's Water Infrastructure Act (AWIA) became law. GSWC must now conduct additional risk and resilience assessments and develop emergency response plans for each of our water systems. These assessments and plans include natural hazards as well as malevolent acts. The first such assessments were completed in 2020. They will be reviewed and resubmitted every five years.

The Military Utility Privatization Subsidiaries operate facilities within the boundaries of military bases, which provide limited access to the general public. To further enhance security, in prior years, certain upgrades were completed at various military bases through contract modifications funded by the U.S. government.

Registrant has evaluated its cyber-security systems and continues to address identified areas of improvement with respect to U.S. government regulations regarding cyber-security of government contractors. These improvements include the physical security at all of the office and employee facilities it operates. Registrant believes it is in compliance with these regulations.

Despite its efforts, Registrant cannot guarantee that intrusions, cyber-attacks or other attacks will not cause water or electric system problems, disrupt service to customers, compromise important data or systems or result in unintended release of customer or employee information.

### Water Supply

#### GSWC

During 2022, GSWC delivered approximately 58.0 million hundred cubic feet ("ccf") of water to its customers, which is an average of about 365 acre-feet per day or 119 million gallons per day (an acre-foot is approximately 435.6 ccf or 326,000 gallons). Approximately 52% of GSWC's supply came from groundwater produced from wells situated throughout GSWC's service areas. GSWC supplemented its groundwater production with wholesale purchases from Metropolitan Water District ("MWD") member agencies and regional water suppliers (roughly 45% of total demand) and with authorized diversions from rivers (roughly 3%) under agreements with the United States Bureau of Reclamation ("Bureau") and the Sacramento Municipal Utility District ("SMUD"). GSWC also utilizes recycled water supplies to serve recycled water customers in several service areas. GSWC continually assesses its water rights and groundwater storage assets to maximize use of lower cost groundwater sources where available.

#### *Groundwater*

GSWC has a diverse water supply portfolio which includes adjudicated groundwater rights, surface water rights, and a number of unadjudicated water rights to help meet supply requirements. The productivity of GSWC's groundwater resources varies from year to year depending upon a variety of factors, including natural replenishment from snow-melt or rainfall, the availability of imported replenishment water, the amount of water previously stored in groundwater basins, natural or man-

made contamination, legal production limitations, and the amount and seasonality of water use by GSWC's customers and others. GSWC actively participates in efforts to protect groundwater basins from over-use and from contamination. In some periods, these efforts may require reductions in groundwater pumping and increased reliance on alternative water resources. GSWC also participates in implementation of California's Sustainable Groundwater Management Act.

From time to time, GSWC may purchase or temporarily use water rights from others for delivery to customers. GSWC has contracts to purchase water or water rights for an aggregate amount of \$3.1 million as of December 31, 2022. Included in the \$3.1 million is a remaining commitment of \$1.5 million under an agreement with the City of Claremont ("the City") to lease water rights that were ascribed to the City as part of the Six Basins adjudication. The initial term of the agreement expires in 2028. GSWC may exercise an option to renew this agreement for 10 additional years. The remaining \$1.6 million is for commitments for purchased water with other third parties, which expire through 2038.

#### *Imported Water*

GSWC also manages a portfolio of water supply arrangements with water wholesalers who may import water from outside the immediate service area. For example, GSWC has contracts with various governmental entities and other parties to purchase water through a total of 58 connections for distribution to customers, in addition to numerous emergency connections. MWD is a public agency organized and managed to provide a supplemental, imported supply to its member public agencies. There are 26 such member agencies, consisting of 14 cities, 11 municipal water districts and one county water authority. GSWC has 45 connections to MWD's water distribution facilities and those of member agencies. GSWC purchases MWD water through six separate member agencies aggregating 49,767 acre-feet annually. MWD sources its supplies from Northern California via the State Water Project and the Colorado River through the Colorado River Aqueduct, which it owns and operates, and from local programs and transfer arrangements.

MWD currently has supply levels of 1.13 million acre-feet (MAF) with annual demands of approximately 1.71 MAF resulting in a supply gap of 574 thousand acre feet. MWD has available access to store more than 1.65 MAF of water in Lake Mead as part of an intentionally created surplus program developed under a 2007 Interim Shortage agreement and is available for use during dry years. In addition, MWD, along with the seven other Basin states which use water from the Colorado River, developed and agreed to the Drought Contingency Plan in 2019 where each lower Basin state which diverts water from the Colorado River below Lees Ferry agrees to store defined amounts of water in Lake Mead to prevent both Lake Mead and Lake Powell from reaching critically low levels. California is a lower Basin state. On December 1, 2022, the Department of Water Resources set the initial allocation for the water year to 5% due to the possibility that 2023 may be another critically dry year.

#### *Drought Impact*

In May 2018, the California Legislature passed two bills that provide a framework for long-term water-use efficiency standards and drought planning and resiliency. The initial steps in implementation of this legislation have been laid out in a summary document by the California Department of Water Resources ("DWR") and State Water Resources Control Board ("SWRCB"). Over the next several years, State agencies, water suppliers and other entities will be working to meet the requirements and timelines of plan implementation. A notable milestone is the establishment of an indoor water use standard of 55 gallons per capita per day ("gpcd") until 2025. Legislation signed by the Governor into law in September 2022 has set more stringent indoor standard targets than initially set forth in the 2018 legislation. The indoor standard will now be set at 47 gpcd in 2025 and then reduced to 42 gpcd in 2030 (previously had been set at 52.5 gpcd and 50 gpcd, respectively).

California's recent period of multi-year drought has resulted in reduced recharge to the state's groundwater basins. GSWC utilizes groundwater from numerous groundwater basins throughout the state. Several of these basins, especially smaller basins, experienced lower groundwater levels because of the drought. Several of GSWC's service areas rely on groundwater as their only source of supply. Given the critical nature of the groundwater levels in California's Central Coast area, GSWC implemented mandatory water restrictions in certain service areas in accordance with CPUC procedures. In the event of water supply shortages from the locally available supply, GSWC would need to transport additional water from other areas, increasing the cost of water supply.

California is potentially entering into a fourth year of drought after experiencing a very dry 2022 Water Year, beginning October 1, 2021 to September 30, 2022, with the driest January to March in 100 years and the period of 2020 to 2022 being the driest 3-year period on record. However, a series of atmospheric storm events this January and February have delivered a promising outlook to the State's supply conditions. As of February 21, 2023, the U.S. Drought Monitor reported that none of California was in "Extreme Drought" as compared to 41% just three months ago, and 33% of California was in "Severe Drought" as compared to 85% just three months ago and 66% a year ago.

Due to the ongoing dry conditions in 2022, DWR set the State Water Project allocation to only 5% in March 2022. In April 2022, the Metropolitan Water District of Southern California ("MWD") declared a water supply emergency condition for areas of their service area dependent on SWP supplies. This has impacted GSWC's Simi Valley and Claremont service areas, which utilize a portion of their supply from the SWP. This action also includes a phased emergency conservation program that limits outdoor watering in those areas to one day per week. The impacted MWD areas as a whole achieved the goal of meeting their targets for 2022. MWD has continued the emergency conservation plan in 2023 but could modify the plan should the SWP

allocation be increased sufficiently in the coming months. DWR announced an updated SWP allocation of 30% on January 26th. However, MWD has not yet announced any change to their emergency conservation plan.

On March 28, 2022, the governor of California issued an executive order calling on all urban water suppliers to reduce water use by 20 – 30 percent. In June 2022, GSWC moved all of its water systems to the second stage of its Water Shortage Contingency Plan that limits outdoor watering to two days per week (except for the Claremont and Simi Valley Systems, which are restricted to one day per week). GSWC will continue to work with its local suppliers to assess water supply conditions and water-use restrictions in its service areas and make appropriate adjustments as needed. In 2021, the CPUC authorized GSWC to track incremental drought-related costs in a memorandum account for future recovery.

Prolonged drought conditions also exist on the Colorado River System, which is experiencing historically low reservoir levels in Lake Mead and Lake Powell. Urgent action to reduce water demand on the lower river by 2 to 4 million acre feet annually has been requested by the US Bureau of Reclamation (the “Bureau”). Under the 2019 drought contingency plan on the river, the lower basin states (except California) will experience reductions in volume deliveries in 2023. However, on-going negotiations among the basin states to reach a consensus on how to share reductions called by the Bureau may result in proactive actions in 2023 by MWD. On December 13, 2022, MWD declared a regional drought emergency and began discussions among the member agencies to consider the development of a region-wide allocation program that may be adopted and implemented in spring 2023 to reduce demand on the river. The Bureau has initiated a process to prepare a Supplemental Environmental Impact Statement that may result in modifications to the 2007 Interim Storage Agreement and the 2019 Drought Contingency Plan. In addition, the Department of the Interior has recently requested a response plan by January 31, 2023. Two plans were submitted by this deadline by the basin states. California submitted a plan and the other six basin states submitted an alternative plan. California’s framework builds on the previously committed 400,000 AF per year savings along with measures to protect storage in Lake Mead and stabilize the river system. The alternative plan relies on accounting for evaporative losses that would heavily impact California. The Department of Interior will consider these two plans in their evaluation of next steps for the river and that response may impact supplies to California in 2023 and beyond. GSWC will continue to monitor developments related to the Colorado River System and assess its impact on GSWC.

#### **Military Utility Privatization Subsidiaries**

The U.S. government is responsible for providing the source of supply for all water on each of the bases served by the Military Utility Privatization Subsidiaries at no cost to the Military Utility Privatization Subsidiaries. Once received from the U.S. government, ASUS’s subsidiaries are responsible for ensuring the continued compliance of the provided source of supply with all federal, state and local regulations. Furthermore, ASUS’s subsidiaries are responsible for ensuring compliance with the reduction and/or removal of all constituents required under its wastewater treatment plant operating permits. ASUS works closely with state regulators and industry associations to stay current with emergent issues and proactively addresses any change in wastewater treatment regulation to ensure permit compliance.

#### **New Accounting Pronouncements**

Registrant is subject to newly issued accounting requirements as well as changes in existing requirements issued by the Financial Accounting Standards Board. See [Note 1](#) of Notes to Consolidated Financial Statements.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Registrant is exposed to certain market risks, including fluctuations in interest rates, and commodity price risk primarily relating to changes in the market price of electricity. Market risk is the potential loss arising from adverse changes in prevailing market rates and prices.

**Interest Rate Risk**

A significant portion of Registrant's capital structure is comprised of fixed-rate debt. Market risk related to our fixed-rate debt is deemed to be the potential increase in fair value resulting from a decrease in interest rates. At December 31, 2022, the fair value of Registrant's long-term debt was \$424.2 million. A hypothetical ten percent change in market interest rates would result in an increase or decrease of approximately \$18.0 million in the fair value of Registrant's long-term debt.

At December 31, 2022, Registrant did not believe that its short-term debt was subject to interest-rate risk due to the fair market value being approximately equal to the carrying value.

**Commodity/Derivative Risk**

BVESI is exposed to commodity price risk primarily relating to changes in the market price of electricity. To manage its exposure to energy price risk, BVESI from time to time executes purchased power contracts that qualify as derivative instruments, requiring mark-to-market derivative accounting under the accounting guidance for derivatives. A derivative financial instrument or other contract derives its value from another investment or designated benchmark.

In 2019, BVESI began taking power under long-term contracts at a fixed cost over three- and five-year terms depending on the amount of power and period during which the power is purchased under the contracts.

The long-term contracts executed in 2019 qualify for derivative accounting treatment. Among other things, the CPUC authorized BVESI to establish a regulatory memorandum account to offset the mark-to-market entries required by the accounting guidance. Accordingly, all unrealized gains and losses generated from these purchased power contracts are deferred on a monthly basis into a non-interest bearing regulatory memorandum account that tracks the changes in fair value of the derivative throughout the term of the contract. As a result, the unrealized gains and losses on these contracts do not impact Registrant's earnings. As of December 31, 2022, there was an \$11.8 million derivative asset on these contracts, with a corresponding regulatory liability in the derivative instrument memorandum account, as a result of an increase in energy prices since the execution of the contracts.

Except as discussed above, Registrant has had no other derivative financial instruments, financial instruments with significant off-balance sheet risks or financial instruments with concentrations of credit risk.



**Item 8. Financial Statements and Supplementary Data****American States Water Company**

|  |                    |
|--|--------------------|
| <a href="#">Reports of Independent Registered Public Accounting Firm (PCAOB ID 238)</a>  | <a href="#">61</a> |
| <a href="#">Consolidated Balance Sheets - December 31, 2022 and 2021</a>   | <a href="#">65</a> |
| <a href="#">Consolidated Statements of Capitalization - December 31, 2022 and 2021</a>   | <a href="#">67</a> |
| <a href="#">Consolidated Statements of Income - For the years ended December 31, 2022, 2021 and 2020</a>                                 | <a href="#">68</a> |
| <a href="#">Consolidated Statements of Changes in Common Shareholders' Equity - For the years ended December 31, 2022, 2021 and 2020</a> | <a href="#">69</a> |
| <a href="#">Consolidated Statements of Cash Flows - For the years ended December 31, 2022, 2021 and 2020</a>                             | <a href="#">70</a> |

**Golden State Water Company**

|   |                    |
|---|--------------------|
| <a href="#">Balance Sheets - December 31, 2022 and 2021</a>   | <a href="#">71</a> |
| <a href="#">Statements of Capitalization - December 31, 2022 and 2021</a>   | <a href="#">73</a> |
| <a href="#">Statements of Income - For the years ended December 31, 2022, 2021 and 2020</a>                                 | <a href="#">74</a> |
| <a href="#">Statements of Changes in Common Shareholder's Equity - For the years ended December 31, 2022, 2021 and 2020</a> | <a href="#">75</a> |
| <a href="#">Statements of Cash Flows - For the years ended December 31, 2022, 2021 and 2020</a>                             | <a href="#">76</a> |
| <a href="#">Notes to Consolidated Financial Statements</a>  | <a href="#">77</a> |

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of American States Water Company

### *Opinions on the Financial Statements and Internal Control over Financial Reporting*

We have audited the accompanying consolidated balance sheets and statements of capitalization of American States Water Company and its subsidiaries (the "Company") as of December 31, 2022 and 2021, and the related consolidated statements of income, of changes in common shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2022, including the related notes and the financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

### *Basis for Opinions*

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### *Definition and Limitations of Internal Control over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### ***Accounting for the Effects of Rate Regulation***

As described in Notes 1 and 3 to the consolidated financial statements, the Company records regulatory assets, which represent probable future recoveries of costs from customers through the ratemaking process, and regulatory liabilities, which represent probable future refunds that are to be credited to customers through the ratemaking process. Accounting for such activities as regulatory assets and liabilities is in accordance with the guidance for accounting for the effects of rate regulation. In determining the probability of costs being recognized in other periods, management considers regulatory rules and decisions, past practices and other facts or circumstances that would indicate if recovery is probable. As of December 31, 2022, there were \$76 million of regulatory assets and \$102 million of regulatory liabilities.

The principal considerations for our determination that performing procedures relating to accounting for the effects of rate regulation is a critical audit matter are the significant judgment by management in the accounting for regulatory assets and liabilities related to assessing the probability that costs will be recovered or that amounts will be refunded, the timing of recognition of regulatory assets and liabilities as a result of established practice, new or changes in regulatory and legislative proceedings, or other relevant facts and circumstances. This in turn led to significant auditor judgment, subjectivity and effort in performing audit procedures and evaluating audit evidence obtained relating to management's accounting for regulatory assets and liabilities.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's assessment and consideration of regulatory and legislative proceedings and other evidence informing the probability that costs will be recovered, and amounts will be refunded, and the timing of the inclusion of these deferrals in rates as well as the disclosure impacts. These procedures also included, among others, evaluating the reasonableness of management's judgments regarding the probability and timing of recovery of regulatory assets and refund of regulatory liabilities based on the Company's correspondence with regulators, status of regulatory proceedings, past practices, and other relevant information; evaluating the related accounting and disclosure implications; and calculating regulatory assets and liabilities balances based on provisions and formulas outlined in rate orders and other correspondence with the Company's regulator.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California  
March 1, 2023

We have served as the Company's auditor since 2002.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of Golden State Water Company

### *Opinion on the Financial Statements*

We have audited the accompanying balance sheets and statements of capitalization of Golden State Water Company (the "Company") as of December 31, 2022 and 2021, and the related statements of income, of changes in common shareholder's equity and of cash flows for each of the three years in the period ended December 31, 2022, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### *Critical Audit Matters*

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### *Accounting for the Effects of Rate Regulation*

As described in Notes 1 and 3 to the financial statements, the Company records regulatory assets, which represent probable future recoveries of costs from customers through the ratemaking process, and regulatory liabilities, which represent probable future refunds that are to be credited to customers through the ratemaking process. Accounting for such activities as regulatory assets and liabilities is in accordance with the guidance for accounting for the effects of rate regulation. In determining the probability of costs being recognized in other periods, management considers regulatory rules and decisions, past practices and other facts or circumstances that would indicate if recovery is probable. As of December 31, 2022, there were \$55 million of regulatory assets and \$82 million of regulatory liabilities.

The principal considerations for our determination that performing procedures relating to accounting for the effects of rate regulation is a critical audit matter are the significant judgment by management in the accounting for regulatory assets and liabilities related to assessing the probability that costs will be recovered or that amounts will be refunded, the timing of recognition of regulatory assets and liabilities as a result of established practice, new or changes in regulatory and legislative proceedings, or other relevant facts and circumstances. This in turn led to significant auditor judgment, subjectivity and effort in performing audit procedures and evaluating audit evidence obtained relating to management's accounting for regulatory assets and liabilities.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included testing the effectiveness of controls relating to management's assessment and consideration of regulatory and legislative proceedings and other evidence informing the probability that costs will be recovered, and amounts will be refunded, and the timing of the inclusion of these deferrals in rates as well as the disclosure impacts. These procedures also included, among others, evaluating the reasonableness of management's judgments regarding the probability and timing of recovery of regulatory assets and refund of regulatory liabilities based on the Company's correspondence with regulators, status of regulatory proceedings, past practices, and other relevant information; evaluating the related accounting and disclosure implications; and calculating regulatory assets and liabilities balances based on provisions and formulas outlined in rate orders and other correspondence with the Company's regulator.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California  
March 1, 2023

We have served as the Company's auditor since 2002.

**AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS**

EXHIBIT E

| (in thousands)   | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2022                | 2021                |
| <b>Assets</b>  |                     |                     |
| <b>Utility Plant</b>   |                     |                     |
| Regulated utility plant, at cost:  |                     |                     |
| Water  | \$ 2,006,468        | \$ 1,898,817        |
| Electric   | 133,815             | 116,472             |
| Total  | 2,140,283           | 2,015,289           |
| Non-regulated utility property, at cost  | 38,066              | 37,064              |
| Total utility plant, at cost   | 2,178,349           | 2,052,353           |
| Less — accumulated depreciation  | (606,231)           | (594,264)           |
|  | 1,572,118           | 1,458,089           |
| Construction work in progress  | 181,648             | 167,915             |
| Net utility plant  | 1,753,766           | 1,626,004           |
| <b>Other Property and Investments</b>  |                     |                     |
| Goodwill   | 1,116               | 1,116               |
| Other property and investments   | 36,907              | 40,806              |
| Total other property and investments   | 38,023              | 41,922              |
| <b>Current Assets</b>  |                     |                     |
| Cash and cash equivalents  | 5,997               | 4,963               |
| Accounts receivable — customers, less allowance for doubtful accounts          | 26,206              | 34,416              |
| Unbilled revenue — receivable (Note 2)   | 20,663              | 27,147              |
| Receivable from U.S. government, less allowance for doubtful accounts (Note 2) | 34,974              | 27,827              |
| Other accounts receivable, less allowance for doubtful accounts                | 4,215               | 6,510               |
| Income taxes receivable  | 3,901               | 236                 |
| Materials and supplies   | 14,623              | 12,163              |
| Regulatory assets — current  | 14,028              | 8,897               |
| Prepayments and other current assets   | 5,450               | 5,317               |
| Contract assets (Note 2)   | 9,390               | 6,135               |
| Purchase power contract derivative at fair value                               | 11,847              | 4,441               |
| Total current assets   | 151,294             | 138,052             |
| <b>Other Assets</b>  |                     |                     |
| Unbilled revenue — receivable from U.S. government (Note 2)                    | 6,456               | 9,671               |
| Receivable from U.S. government (Note 2)                                       | 50,482              | 51,991              |
| Contract assets (Note 2)   | 5,592               | 3,452               |
| Operating lease right-of-use assets  | 9,535               | 10,479              |
| Regulatory assets  | 5,694               | 3,182               |
| Other  | 13,532              | 16,230              |
| Total other assets   | 91,291              | 95,005              |
| <b>Total Assets</b>  | <b>\$ 2,034,374</b> | <b>\$ 1,900,983</b> |

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

**AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS**

EXHIBIT E

| (in thousands)   | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2022                | 2021                |
| <b>Capitalization and Liabilities</b>                  |                     |                     |
| <b>Capitalization</b>                                  |                     |                     |
| Common shareholders' equity                            | \$ 709,549          | \$ 685,947          |
| Long-term debt   | 446,547             | 412,176             |
| Total capitalization                                   | 1,156,096           | 1,098,123           |
| <b>Current Liabilities</b>                             |                     |                     |
| Notes payable to banks                                 | 255,500             | 31,000              |
| Long-term debt — current                               | 399                 | 377                 |
| Accounts payable                                       | 84,849              | 65,902              |
| Income taxes payable                                   | 1,848               | 4,662               |
| Accrued other taxes                                    | 16,257              | 17,137              |
| Accrued employee expenses                              | 13,996              | 16,256              |
| Accrued interest                                       | 5,308               | 4,545               |
| Regulatory liabilities                                 | 4,574               | 1,896               |
| Contract liabilities (Note 2)                          | 903                 | 257                 |
| Operating lease liabilities                            | 1,892               | 2,044               |
| Other  | 10,996              | 11,498              |
| Total current liabilities                              | 396,522             | 155,574             |
| <b>Other Credits</b>                                   |                     |                     |
| Notes payable to banks                                 | 22,000              | 174,500             |
| Advances for construction                              | 64,351              | 66,727              |
| Contributions in aid of construction — net             | 147,918             | 147,482             |
| Deferred income taxes                                  | 149,677             | 140,290             |
| Regulatory liabilities                                 | 40,602              | 32,979              |
| Unamortized investment tax credits                     | 1,082               | 1,153               |
| Accrued pension and other post-retirement benefits     | 33,636              | 61,365              |
| Operating lease liabilities                            | 8,090               | 8,920               |
| Other  | 14,400              | 13,870              |
| Total other credits                                    | 481,756             | 647,286             |
| <b>Commitments and Contingencies (Notes 14 and 15)</b> |                     |                     |
| <b>Total Capitalization and Liabilities</b>            | <b>\$ 2,034,374</b> | <b>\$ 1,900,983</b> |

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

**AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF CAPITALIZATION**

EXHIBIT E

| (in thousands, except number of shares)                              | December 31, |              |
|--|--------------|--------------|
|  | 2022         | 2021         |
| <b>Common Shareholders' Equity:</b>                                  |              |              |
| Common Shares, no par value:   |              |              |
| Authorized: 60,000,000 shares  |              |              |
| Outstanding: 36,962,241 shares in 2022 and 36,936,285 shares in 2021 | \$ 260,158   | \$ 258,442   |
| Reinvested earnings in the business                                  | 449,391      | 427,505      |
|  | 709,549      | 685,947      |
| <b>Long-Term Debt</b>  |              |              |
| Notes/Debentures:  |              |              |
| 6.81% notes due 2028   | 15,000       | 15,000       |
| 6.59% notes due 2029   | 40,000       | 40,000       |
| 7.875% notes due 2030  | 20,000       | 20,000       |
| 7.23% notes due 2031   | 50,000       | 50,000       |
| 6.00% notes due 2041   | 62,000       | 62,000       |
| Private Placement Notes:   |              |              |
| 3.45% notes due 2029   | 15,000       | 15,000       |
| 5.87% notes due 2028   | 40,000       | 40,000       |
| 2.17% notes due 2030   | 85,000       | 85,000       |
| 2.90% notes due 2040   | 75,000       | 75,000       |
| 4.548% notes due 2032  | 17,500       | —            |
| 4.949% notes due 2037  | 17,500       | —            |
| Tax-Exempt Obligations:  |              |              |
| 5.50% notes due 2026   | 7,730        | 7,730        |
| State Water Project due 2035   | 2,834        | 3,039        |
| Other Debt Instruments:  |              |              |
| American Recovery and Reinvestment Act Obligation due 2033           | 2,809        | 3,019        |
|  | 450,373      | 415,788      |
| Less: Current maturities   | (399)        | (377)        |
| Debt issuance costs  | (3,427)      | (3,235)      |
|  | 446,547      | 412,176      |
| <b>Total Capitalization</b>  | \$ 1,156,096 | \$ 1,098,123 |

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



**AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME**

EXHIBIT E

| (in thousands, except per share amounts)             | For the years ended December 31, |            |            |
|--|----------------------------------|------------|------------|
|  | 2022                             | 2021       | 2020       |
| <b>Operating Revenues</b>                            |                                  |            |            |
| Water  | \$ 340,602                       | \$ 347,112 | \$ 330,637 |
| Electric   | 39,986                           | 38,345     | 37,024     |
| Contracted services                                  | 110,940                          | 113,396    | 120,582    |
| Total operating revenues                             | 491,528                          | 498,853    | 488,243    |
| <b>Operating Expenses</b>                            |                                  |            |            |
| Water purchased                                      | 75,939                           | 77,914     | 74,554     |
| Power purchased for pumping                          | 11,861                           | 11,103     | 10,134     |
| Groundwater production assessment                    | 19,071                           | 19,412     | 20,392     |
| Power purchased for resale                           | 15,039                           | 11,240     | 10,423     |
| Supply cost balancing accounts                       | (12,000)                         | (11,421)   | (11,803)   |
| Other operation                                      | 38,095                           | 34,738     | 33,236     |
| Administrative and general                           | 86,190                           | 83,547     | 83,615     |
| Depreciation and amortization                        | 41,315                           | 39,596     | 36,850     |
| Maintenance  | 13,392                           | 12,781     | 15,702     |
| Property and other taxes                             | 22,894                           | 22,522     | 22,199     |
| ASUS construction                                    | 53,171                           | 56,909     | 62,411     |
| (Gain) loss on sale of assets                        | (75)                             | (465)      | 31         |
| Total operating expenses                             | 364,892                          | 357,876    | 357,744    |
| <b>Operating Income</b>                              | 126,636                          | 140,977    | 130,499    |
| <b>Other Income and Expenses</b>                     |                                  |            |            |
| Interest expense                                     | (27,027)                         | (22,834)   | (22,531)   |
| Interest income                                      | 2,326                            | 1,493      | 1,801      |
| Other, net   | 125                              | 5,134      | 4,853      |
| Total other income and expenses                      | (24,576)                         | (16,207)   | (15,877)   |
| <b>Income before income tax expense</b>              | 102,060                          | 124,770    | 114,622    |
| Income tax expense                                   | 23,664                           | 30,423     | 28,197     |
| <b>Net Income</b>                                    | \$ 78,396                        | \$ 94,347  | \$ 86,425  |
| <b>Weighted Average Number of Shares Outstanding</b> | 36,955                           | 36,921     | 36,880     |
| <b>Basic Earnings Per Common Share</b>               | \$ 2.12                          | \$ 2.55    | \$ 2.34    |
| <b>Weighted Average Number of Diluted Shares</b>     | 37,039                           | 37,010     | 36,995     |
| <b>Fully Diluted Earnings Per Share</b>              | \$ 2.11                          | \$ 2.55    | \$ 2.33    |
| <b>Dividends Paid Per Common Share</b>               | \$ 1.525                         | \$ 1.40    | \$ 1.28    |

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

**AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF CHANGES  
IN COMMON SHAREHOLDERS' EQUITY**

EXHIBIT E

| (in thousands)   | Common Shares          |                          | Reinvested<br>Earnings<br>in the<br>Business | Total                    |
|--|------------------------|--------------------------|--|--------------------------|
|  | Number<br>of<br>Shares | Amount                   |  |                          |
| <b>Balances at December 31, 2019</b>   | 36,847                 | \$ 255,566               | \$ 345,964                                   | \$ 601,530               |
| Add:   |                        |                          |  |                          |
| Net income   |                        |                          | 86,425                                       | 86,425                   |
| Exercise of stock options and other issuance of Common Shares  | 42                     | 30                       |  | 30                       |
| Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements |                        | 894                      |  | 894                      |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        | 176                      |  | 176                      |
| Deduct:  |                        |                          |  |                          |
| Dividends on Common Shares   |                        |                          | 47,206                                       | 47,206                   |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        |                          | 176  | 176                      |
| <b>Balances at December 31, 2020</b>   | <u>36,889</u>          | <u>256,666</u>           | <u>385,007</u>                               | <u>641,673</u>           |
| Add:   |                        |                          |  |                          |
| Net income   |                        |                          | 94,347                                       | 94,347                   |
| Exercise of stock options and other issuance of Common Shares  | 47                     | —                        |  | —                        |
| Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements |                        | 1,616                    |  | 1,616                    |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        | 160                      |  | 160                      |
| Deduct:  |                        |                          |  |                          |
| Dividends on Common Shares   |                        |                          | 51,689                                       | 51,689                   |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        |                          | 160  | 160                      |
| <b>Balances at December 31, 2021</b>   | <u>36,936</u>          | <u>258,442</u>           | <u>427,505</u>                               | <u>685,947</u>           |
| Add:   |                        |                          |  |                          |
| Net income   |                        |                          | 78,396                                       | 78,396                   |
| Exercise of stock options and other issuance of Common Shares  | 26                     | —                        |  | —                        |
| Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements |                        | 1,562                    |  | 1,562                    |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        | 154                      |  | 154                      |
| Deduct:  |                        |                          |  |                          |
| Dividends on Common Shares   |                        |                          | 56,356                                       | 56,356                   |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        |                          | 154  | 154                      |
| <b>Balances at December 31, 2022</b>   | <u><u>36,962</u></u>   | <u><u>\$ 260,158</u></u> | <u><u>\$ 449,391</u></u>                     | <u><u>\$ 709,549</u></u> |

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

**AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

EXHIBIT E

| (in thousands)  | For the years ended December 31, |           |           |
|---|----------------------------------|-----------|-----------|
|   | 2022                             | 2021      | 2020      |
| <b>Cash Flows From Operating Activities:</b>                                      |                                  |           |           |
| Net income  | \$ 78,396                        | \$ 94,347 | \$ 86,425 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |           |           |
| Depreciation and amortization   | 41,697                           | 39,974    | 37,204    |
| Provision for doubtful accounts   | 1,043                            | 1,119     | 1,433     |
| Deferred income taxes and investment tax credits                                  | 2,803                            | 3,561     | 2,243     |
| Stock-based compensation expense  | 2,571                            | 2,566     | 2,463     |
| (Gain) loss on sale of assets   | (75)                             | (465)     | 31        |
| Loss (gain) on investments held in a trust  | 5,177                            | (4,287)   | (3,024)   |
| Other — net   | 113                              | 84        | (908)     |
| Changes in assets and liabilities:  |                                  |           |           |
| Accounts receivable — customers   | 5,424                            | (4,688)   | (13,272)  |
| Unbilled revenue — receivable   | 9,699                            | (1,037)   | (6,678)   |
| Other accounts receivable   | 2,115                            | (1,422)   | (1,204)   |
| Receivables from the U.S. government  | (5,638)                          | (4,713)   | (3,889)   |
| Materials and supplies  | (2,460)                          | (3,544)   | (2,190)   |
| Prepayments and other assets  | 3,146                            | 1,323     | 1,686     |
| Contract assets   | (5,395)                          | 235       | (588)     |
| Regulatory assets/liabilities   | (18,915)                         | (5,842)   | 10,150    |
| Accounts payable  | 11,767                           | (2,881)   | 5,348     |
| Income taxes receivable/payable   | (6,479)                          | (2,254)   | 12,270    |
| Contract liabilities  | 646                              | (1,543)   | (9,367)   |
| Accrued pension and other post-retirement benefits                                | (3,087)                          | 3,051     | 1,444     |
| Other liabilities   | (4,749)                          | 2,000     | 2,593     |
| Net cash provided   | 117,799                          | 115,584   | 122,170   |
| <b>Cash Flows From Investing Activities:</b>                                      |                                  |           |           |
| Capital expenditures  | (166,240)                        | (144,515) | (130,423) |
| Proceeds from sale of assets  | 59                               | 565       | 88        |
| Other investments   | (921)                            | (1,142)   | (1,275)   |
| Net cash used   | (167,102)                        | (145,092) | (131,610) |
| <b>Cash Flows From Financing Activities:</b>                                      |                                  |           |           |
| Proceeds from stock option exercises  | —                                | —         | 30        |
| Receipt of advances for and contributions in aid of construction                  | 6,901                            | 12,432    | 9,338     |
| Refunds on advances for construction  | (5,321)                          | (4,666)   | (3,729)   |
| Repayments of long-term debt  | (377)                            | (28,356)  | (336)     |
| Proceeds from the issuance of long-term debt, net of issuance costs               | 34,789                           | —         | 159,413   |
| Net change in notes payable to banks  | 72,000                           | 71,300    | (70,800)  |
| Dividends paid  | (56,356)                         | (51,689)  | (47,206)  |
| Other   | (1,299)                          | (1,287)   | (1,867)   |
| Net cash provided (used)  | 50,337                           | (2,266)   | 44,843    |
| <b>Net change in cash and cash equivalents</b>                                    | 1,034                            | (31,774)  | 35,403    |
| Cash and cash equivalents, beginning of year                                      | 4,963                            | 36,737    | 1,334     |
| <b>Cash and cash equivalents, end of year</b>                                     | \$ 5,997                         | \$ 4,963  | \$ 36,737 |

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

**GOLDEN STATE WATER COMPANY  
BALANCE SHEETS**

EXHIBIT E

| (in thousands)  | December 31, |              |
|---|--------------|--------------|
|   | 2022         | 2021         |
| <b>Assets</b>   |              |              |
| Utility Plant, at cost  | \$ 2,006,468 | \$ 1,898,817 |
| Less — accumulated depreciation                                       | (530,925)    | (522,672)    |
|   | 1,475,543    | 1,376,145    |
| Construction work in progress   | 141,175      | 123,600      |
| Net utility plant   | 1,616,718    | 1,499,745    |
| <b>Other Property and Investments</b>                                 | 34,655       | 38,659       |
|   | 34,655       | 38,659       |
| <b>Current Assets</b>   |              |              |
| Cash and cash equivalents   | 370          | 525          |
| Accounts receivable — customers, less allowance for doubtful accounts | 23,107       | 31,870       |
| Unbilled revenue — receivable   | 15,006       | 20,525       |
| Other accounts receivable, less allowance for doubtful accounts       | 2,721        | 3,791        |
| Intercompany receivable   | 621          | —            |
| Income taxes receivable from Parent                                   | 1,692        | —            |
| Materials and supplies  | 6,120        | 5,384        |
| Regulatory assets — current   | 14,028       | 8,897        |
| Prepayments and other current assets                                  | 4,464        | 4,223        |
| Total current assets  | 68,129       | 75,215       |
| <b>Other Assets</b>   |              |              |
| Operating lease right-of-use assets                                   | 9,208        | 10,439       |
| Other   | 12,598       | 14,424       |
| Total other assets  | 21,806       | 24,863       |
| <b>Total Assets</b>   | \$ 1,741,308 | \$ 1,638,482 |

*The accompanying notes are an integral part of these financial statements.*

**GOLDEN STATE WATER COMPANY  
BALANCE SHEETS**

EXHIBIT E

| (in thousands)   | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2022                | 2021                |
| <b>Capitalization and Liabilities</b>                  |                     |                     |
| <b>Capitalization</b>                                  |                     |                     |
| Common shareholder's equity                            | \$ 643,906          | \$ 615,686          |
| Long-term debt   | 411,748             | 412,176             |
| Total capitalization                                   | 1,055,654           | 1,027,862           |
| <b>Current Liabilities</b>                             |                     |                     |
| Long-term debt — current                               | 399                 | 377                 |
| Accounts payable                                       | 65,944              | 50,627              |
| Income taxes payable to Parent                         | —                   | 2,972               |
| Accrued other taxes                                    | 14,501              | 14,960              |
| Accrued employee expenses                              | 11,233              | 12,867              |
| Accrued interest                                       | 4,364               | 4,210               |
| Operating lease liabilities                            | 1,788               | 2,029               |
| Other  | 10,152              | 10,505              |
| Total current liabilities                              | 108,381             | 98,547              |
| <b>Other Credits</b>                                   |                     |                     |
| Intercompany note payable                              | 129,000             | 49,280              |
| Advances for construction                              | 64,331              | 66,707              |
| Contributions in aid of construction — net             | 147,918             | 145,848             |
| Deferred income taxes                                  | 138,788             | 132,314             |
| Regulatory liabilities                                 | 40,602              | 32,979              |
| Unamortized investment tax credits                     | 1,082               | 1,153               |
| Accrued pension and other post-retirement benefits     | 33,421              | 61,170              |
| Operating lease liabilities                            | 7,878               | 8,891               |
| Other  | 14,253              | 13,731              |
| Total other credits                                    | 577,273             | 512,073             |
| <b>Commitments and Contingencies (Notes 14 and 15)</b> |                     |                     |
| <b>Total Capitalization and Liabilities</b>            | <b>\$ 1,741,308</b> | <b>\$ 1,638,482</b> |

*The accompanying notes are an integral part of these financial statements.*

**GOLDEN STATE WATER COMPANY  
STATEMENTS OF CAPITALIZATION**

EXHIBIT E

| (in thousands, except number of shares)                    | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2022                | 2021                |
| <b>Common Shareholder's Equity:</b>                        |                     |                     |
| Common Shares, no par value:                               |                     |                     |
| Authorized: 1,000 shares                                   |                     |                     |
| Outstanding: 170 shares in 2022 and 170 shares in 2021     | \$ 358,123          | \$ 356,530          |
| Reinvested earnings in the business                        | 285,783             | 259,156             |
|  | 643,906             | 615,686             |
| <b>Long-Term Debt</b>                                      |                     |                     |
| <b>Notes/Debentures:</b>                                   |                     |                     |
| 6.81% notes due 2028                                       | 15,000              | 15,000              |
| 6.59% notes due 2029                                       | 40,000              | 40,000              |
| 7.875% notes due 2030                                      | 20,000              | 20,000              |
| 7.23% notes due 2031                                       | 50,000              | 50,000              |
| 6.00% notes due 2041                                       | 62,000              | 62,000              |
| <b>Private Placement Notes:</b>                            |                     |                     |
| 3.45% notes due 2029                                       | 15,000              | 15,000              |
| 5.87% notes due 2028                                       | 40,000              | 40,000              |
| 2.17% notes due 2030                                       | 85,000              | 85,000              |
| 2.90% notes due 2040                                       | 75,000              | 75,000              |
| <b>Tax-Exempt Obligations:</b>                             |                     |                     |
| 5.50% notes due 2026                                       | 7,730               | 7,730               |
| State Water Project due 2035                               | 2,834               | 3,039               |
| <b>Other Debt Instruments:</b>                             |                     |                     |
| American Recovery and Reinvestment Act Obligation due 2033 | 2,809               | 3,019               |
|  | 415,373             | 415,788             |
| Less: Current maturities                                   | (399)               | (377)               |
| Debt issuance costs  | (3,226)             | (3,235)             |
|  | 411,748             | 412,176             |
| <b>Total Capitalization</b>                                | <b>\$ 1,055,654</b> | <b>\$ 1,027,862</b> |

*The accompanying notes are an integral part of these financial statements.*

**GOLDEN STATE WATER COMPANY  
STATEMENTS OF INCOME**

EXHIBIT E

| (in thousands)  | For the years ended December 31, |            |            |
|---|----------------------------------|------------|------------|
|   | 2022                             | 2021       | 2020       |
| <b>Operating Revenues</b>                               |                                  |            |            |
| Water   | \$ 340,602                       | \$ 347,112 | \$ 330,637 |
| Electric (Note 20)                                      | —                                | —          | 18,647     |
| Total operating revenues                                | 340,602                          | 347,112    | 349,284    |
| <b>Operating Expenses (Note 20)</b>                     |                                  |            |            |
| Water purchased   | 75,939                           | 77,914     | 74,554     |
| Power purchased for pumping                             | 11,861                           | 11,103     | 10,134     |
| Groundwater production assessment                       | 19,071                           | 19,412     | 20,392     |
| Power purchased for resale                              | —                                | —          | 5,010      |
| Supply cost balancing accounts                          | (8,643)                          | (11,295)   | (11,749)   |
| Other operation   | 28,117                           | 25,781     | 25,194     |
| Administrative and general                              | 58,358                           | 55,552     | 59,385     |
| Depreciation and amortization                           | 34,805                           | 33,384     | 32,184     |
| Maintenance   | 9,559                            | 9,056      | 12,424     |
| Property and other taxes                                | 19,080                           | 19,041     | 18,860     |
| Gain on sale of assets                                  | —                                | (409)      | —          |
| Total operating expenses                                | 248,147                          | 239,539    | 246,388    |
| <b>Operating Income (Note 20)</b>                       | 92,455                           | 107,573    | 102,896    |
| <b>Other Income and Expenses</b>                        |                                  |            |            |
| Interest expense  | (22,742)                         | (21,474)   | (21,495)   |
| Interest income   | 1,083                            | 428        | 718        |
| Other, net  | (680)                            | 4,783      | 4,556      |
| Total other income and expenses                         | (22,339)                         | (16,263)   | (16,221)   |
| <b>Income from operations before income tax expense</b> | 70,116                           | 91,310     | 86,675     |
| Income tax expense                                      | 16,346                           | 22,095     | 21,704     |
| <b>Net Income (Note 20)</b>                             | \$ 53,770                        | \$ 69,215  | \$ 64,971  |

*The accompanying notes are an integral part of these financial statements.*

**GOLDEN STATE WATER COMPANY  
STATEMENTS OF CHANGES IN  
COMMON SHAREHOLDER'S EQUITY**

EXHIBIT E

| (in thousands, except number of shares)  | Common Shares          |            | Reinvested<br>Earnings<br>in the<br>Business | Total      |
|--|------------------------|------------|--|------------|
|  | Number<br>of<br>Shares | Amount     |  |            |
| <b>Balances at December 31, 2019</b>   | 165                    | \$ 293,754 | \$ 257,434                                   | \$ 551,188 |
| Add:   |                        |            |  |            |
| Net income   |                        |            | 64,971                                       | 64,971     |
| Issuance of Common Shares to Parent  | 5                      | 60,000     |  | 60,000     |
| Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements |                        | 983        |  | 983        |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        | 169        |  | 169        |
| Deduct:  |                        |            |  |            |
| Dividends on Common Shares   |                        |            | 22,500                                       | 22,500     |
| Distribution of BVESI common shares to AWR parent (Note 20)  |                        |            | 71,344                                       | 71,344     |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        |            | 169  | 169        |
| <b>Balances at December 31, 2020</b>   | 170                    | 354,906    | 228,392                                      | 583,298    |
| Add:   |                        |            |  |            |
| Net income   |                        |            | 69,215                                       | 69,215     |
| Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements |                        | 1,473      |  | 1,473      |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        | 151        |  | 151        |
| Deduct:  |                        |            |  |            |
| Dividends on Common Shares   |                        |            | 38,300                                       | 38,300     |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        |            | 151  | 151        |
| <b>Balances at December 31, 2021</b>   | 170                    | 356,530    | 259,156                                      | 615,686    |
| Add:   |                        |            |  |            |
| Net income   |                        |            | 53,770                                       | 53,770     |
| Stock-based compensation, net of taxes paid from shares withheld from employees related to net share settlements |                        | 1,450      |  | 1,450      |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        | 143        |  | 143        |
| Deduct:  |                        |            |  |            |
| Dividends on Common Shares   |                        |            | 27,000                                       | 27,000     |
| Dividend equivalent rights on stock-based awards not paid in cash  |                        |            | 143  | 143        |
| <b>Balances at December 31, 2022</b>   | 170                    | \$ 358,123 | \$ 285,783                                   | \$ 643,906 |

*The accompanying notes are an integral part of these financial statements.*



**GOLDEN STATE WATER COMPANY  
STATEMENTS OF CASH FLOWS**

EXHIBIT E

| (in thousands)  | For the years ended December 31, |           |           |
|---|----------------------------------|-----------|-----------|
|   | 2022                             | 2021      | 2020      |
| <b>Cash Flows From Operating Activities:</b>                                      |                                  |           |           |
| Net income  | \$ 53,770                        | \$ 69,215 | \$ 64,971 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |           |           |
| Depreciation and amortization   | 35,072                           | 33,643    | 32,477    |
| Provision for doubtful accounts   | 1,018                            | 1,018     | 1,018     |
| Deferred income taxes and investment tax credits                                  | 855                              | 2,308     | 1,181     |
| Stock-based compensation expense  | 2,269                            | 2,313     | 2,349     |
| Gain on sale of assets  | —                                | (409)     | —         |
| Loss (gain) on investments held in a trust  | 5,177                            | (4,287)   | (3,024)   |
| Other — net   | 9                                | 200       | (576)     |
| Changes in assets and liabilities:  |                                  |           |           |
| Accounts receivable — customers   | 6,263                            | (4,287)   | (12,126)  |
| Unbilled revenue — receivable   | 5,519                            | (1,195)   | (1,693)   |
| Other accounts receivable   | 931                              | 592       | (1,364)   |
| Materials and supplies  | (736)                            | (1,725)   | (2,166)   |
| Prepayments and other assets  | 2,125                            | 1,860     | 1,124     |
| Regulatory assets/liabilities   | (12,704)                         | (2,854)   | 13,278    |
| Accounts payable  | 7,671                            | (10)      | 1,810     |
| Intercompany receivable/payable   | (805)                            | 1,479     | (1,911)   |
| Income taxes receivable/payable from/to Parent                                    | (4,664)                          | (1,640)   | 12,339    |
| Accrued pension and other post-retirement benefits                                | (3,228)                          | 2,908     | 1,390     |
| Other liabilities   | (4,034)                          | 1,165     | 1,260     |
| Net cash provided   | 94,508                           | 100,294   | 110,337   |
| <b>Cash Flows From Investing Activities:</b>                                      |                                  |           |           |
| Capital expenditures  | (146,730)                        | (123,526) | (116,409) |
| Note receivable from AWR parent   | —                                | (26,000)  | (6,000)   |
| Receipt of payment of note receivable from AWR parent                             | —                                | 26,000    | 6,000     |
| Proceeds from sale of assets  | —                                | 409       | —         |
| Other investments   | (1,001)                          | (1,142)   | (1,275)   |
| Net cash used   | (147,731)                        | (124,259) | (117,684) |
| <b>Cash Flows From Financing Activities:</b>                                      |                                  |           |           |
| Proceeds from issuance of Common Shares to Parent                                 | —                                | —         | 60,000    |
| Receipt of advances for and contributions in aid of construction                  | 6,901                            | 12,397    | 9,338     |
| Refunds on advances for construction  | (5,321)                          | (4,666)   | (3,729)   |
| Repayments of long-term debt  | (377)                            | (28,356)  | (336)     |
| Proceeds from the issuance of long-term debt, net of issuance costs               | —                                | —         | 159,413   |
| Net change in intercompany borrowings   | 80,000                           | 49,000    | (158,000) |
| Dividends paid  | (27,000)                         | (38,300)  | (22,500)  |
| Other   | (1,135)                          | (1,163)   | (1,662)   |
| Net cash provided (used)  | 53,068                           | (11,088)  | 42,524    |
| <b>Net change in cash and cash equivalents</b>                                    | (155)                            | (35,053)  | 35,177    |
| Cash and cash equivalents, beginning of year                                      | 525                              | 35,578    | 401       |
| <b>Cash and cash equivalents, end of year</b>                                     | \$ 370                           | \$ 525    | \$ 35,578 |

*The accompanying notes are an integral part of these financial statements.*

**Note 1 — Summary of Significant Accounting Policies**

**Nature of Operations:** American States Water Company (“AWR”) is the parent company of Golden State Water Company (“GSWC”), Bear Valley Electric Service Inc. (“BVESI”), and American States Utility Services, Inc. (“ASUS”) (and its wholly owned subsidiaries, Fort Bliss Water Services Company (“FBWS”), Terrapin Utility Services, Inc. (“TUS”), Old Dominion Utility Services, Inc. (“ODUS”), Palmetto State Utility Services, Inc. (“PSUS”), Old North Utility Services, Inc. (“ONUS”), Emerald Coast Utility Services, Inc. (“ECUS”), and Fort Riley Utility Services, Inc. (“FRUS”). AWR and its subsidiaries may be collectively referred to as “Registrant” or “the Company.” The subsidiaries of ASUS are collectively referred to as the “Military Utility Privatization Subsidiaries.” On July 1, 2020, GSWC completed the transfer of the electric utility assets and liabilities from its electric division to BVESI, a separate legal entity and wholly owned subsidiary of AWR (Note 20). This reorganization did not result in any substantive changes to AWR’s operations and business segments. AWR, through its wholly owned subsidiaries, serves over one million people in nine states.

GSWC and BVESI are both California public utilities, with GSWC engaged in the purchase, production, distribution and sale of water throughout California serving approximately 263,000 customers, while BVESI distributes electricity in several San Bernardino County mountain communities in California serving approximately 24,700 customers. The California Public Utilities Commission (“CPUC”) regulates GSWC’s and BVESI’s businesses in matters including properties, rates, services, facilities, and transactions between GSWC, BVESI, and their affiliates.

ASUS, through its Military Utility Privatization Subsidiaries, operates, maintains and performs construction activities (including renewal and replacement capital work) on water and/or wastewater systems at various U.S. military bases pursuant to an initial 50-year firm fixed-price contract with the U.S. government. These contracts are subject to annual economic price adjustments and modifications for changes in circumstances, changes in laws and regulations and additions to the contract value for new construction of facilities at the military bases.

There is no direct regulatory oversight by the CPUC over AWR or the operations, rates or services provided by ASUS or the Military Utility Privatization Subsidiaries.

**Basis of Presentation:** The consolidated financial statements and notes thereto are presented in a combined report filed by two separate Registrants: AWR and GSWC. References in this report to “Registrant” are to AWR and GSWC, collectively, unless otherwise specified. AWR owns all of the outstanding Common Shares of GSWC, BVESI and ASUS. ASUS owns all of the outstanding common shares of the Military Utility Privatization Subsidiaries. The consolidated financial statements of AWR include the accounts of AWR and its subsidiaries. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Intercompany transactions and balances have been eliminated in the AWR consolidated financial statements.

**Related-Party and Intercompany Transactions:** As discussed in Note 9, AWR borrows under a credit facility and provides funds to GSWC and ASUS in support of their operations through intercompany borrowing agreements. The interest rate charged to GSWC and ASUS is sufficient to cover AWR’s interest expense under the credit facility. AWR’s credit agreement expires in May 2023 and all intercompany borrowing agreements will expire concurrent with the expiration of AWR’s credit facility. AWR intends to execute new intercompany borrowing agreements with its subsidiaries consistent with a new credit facility. As of December 31, 2022, GSWC had \$129.0 million outstanding under its intercompany borrowing arrangement with AWR. The intercompany borrowing agreement with AWR is considered a short-term debt arrangement by the CPUC and GSWC has been authorized by the CPUC to borrow under this arrangement for a term of up to 24 months. Borrowings under this arrangement are, therefore, required to be fully paid off within a 24-month period. On January 31, 2023, GSWC used the proceeds from the issuance of equity to AWR (Note 7) and from the issuance of long-term debt (Note 10) to pay-off all of its intercompany borrowing from AWR. Accordingly, the \$129.0 million outstanding has been refinanced in January 2023 on a long-term basis and is, therefore, classified as a non-current liability under “Other Credits” in GSWC’s Balance Sheet as of December 31, 2022.

Furthermore, GSWC, BVESI and ASUS provide and/or receive various support services to and from their parent, AWR, and among themselves. GSWC also allocates certain corporate office administrative and general costs to its affiliates BVESI and ASUS using allocation factors approved by the CPUC. During the years ended December 31, 2022, 2021 and 2020, GSWC allocated to ASUS approximately \$5.2 million, \$5.3 million and \$4.9 million, respectively, of corporate office administrative and general costs. During the years ended December 31, 2022, 2021 and 2020, GSWC allocated corporate office administrative and general costs to BVESI of approximately \$2.7 million, \$2.8 million and \$1.3 million, respectively. BVESI assumed operations of the electric segment on July 1, 2020.

**COVID-19 Impact:** GSWC, BVESI and ASUS have continued their operations throughout the COVID-19 pandemic given that their water, wastewater and electric utility services are deemed essential. AWR and its subsidiaries continue to monitor the guidance provided by federal, state, and local health authorities and other government officials. While continuing to monitor transmission rates and other variables, employees have returned to company offices. Thus far, the COVID-19 pandemic has not had a material impact on ASUS's current operations.

In response to orders issued by the CPUC and the governor of California, GSWC and BVESI suspended service disconnections for nonpayment. However, pursuant to the CPUC's July 15, 2021 decision in the Second Phase of the Low-Income Affordability Rulemaking discussed previously, the moratorium on water-service disconnections due to non-payment of past-due amounts billed to residential customers expired on February 1, 2022. The CPUC's moratoriums on service disconnections for nonpayment for water and electric customers have ended and as a result, disconnections for delinquent residential customers resumed in June 2022. However, water service cannot be disconnected so long as customers make timely payments on current bills and are provided and adhere to payment plans to pay down past-due bills resulting from the pandemic. In addition, electric-service disconnections for non-payment can only be done after taking into account certain conditions such as average daily temperatures, and residential disconnections are capped on an annual basis at 2.5% of the total residential customers during the previous calendar year.

Beginning in 2020, the pandemic and its lingering effects caused volatility in financial markets resulting in fluctuations in the fair value of plan assets in GSWC's pension and other retirement plans. In addition, the economic impact of the pandemic has also significantly increased the amount of delinquent customer accounts receivable throughout the pandemic, resulting in both GSWC and BVESI increasing their allowance for doubtful accounts. The CPUC has authorized GSWC and BVESI to track incremental costs, including bad debt expense, in excess of what is included in their respective revenue requirements incurred as a result of the pandemic in COVID-19 emergency-related memorandum accounts, which GSWC and BVESI intend to file with the CPUC for future recovery.

On July 12, 2021, the governor of California approved SB-129 Budget Act of 2021, in which nearly \$1 billion in relief funding for overdue water customer bills, and nearly \$1 billion in relief funding for overdue electric customer bills were included. The water customer relief funding is being managed by the State Water Resources Control Board ("SWRCB") through the California Water and Wastewater Arrearage Payment Program to provide assistance to customers for their water debt accrued during the COVID-19 pandemic by remitting federal funds that the state received from the American Rescue Plan Act of 2021 to the utility on behalf of eligible customers.

In January 2022, GSWC received \$9.5 million in COVID relief funds through the California Water and Wastewater Arrearage Payment Program to provide assistance to customers for their water debt accrued during the COVID-19 pandemic by remitting federal funds that the state received from the American Rescue Plan Act of 2021 to the utility on behalf of eligible customers. GSWC applied these funds to its delinquent customers' eligible balances. In February and December 2022, BVESI received \$321,000 and \$152,000, respectively, from the state of California for similar customer relief funding for unpaid electric customer bills incurred during the pandemic. The CPUC requires that amounts tracked in GSWC's and BVESI's COVID-19 memorandum accounts for unpaid customer bills be first offset by any (i) federal and state relief for water or electric utility bill debt, and (ii) customer payments through payment plan arrangements, prior to receiving recovery from customers at large. After these offsets are made, GSWC will file with the CPUC for recovery of the remaining balance. BVESI intends to include the remaining balance in its COVID-19 emergency related memorandum account for recovery once all alternative sources of funding have been exhausted and credited to eligible customer accounts.

During the first half of 2022, GSWC and BVESI continued to experience delinquent customer accounts receivable due to the lingering effects of the COVID-19 pandemic. As of December 31, 2022, GSWC and BVESI had approximately \$3.5 million and \$497,000, respectively, in regulatory asset accounts related to bad debt expense in excess of their revenue requirements, the purchase of personal protective equipment, additional incurred printing costs, and other incremental COVID-19-related costs. Emergency-type memorandum accounts are well-established cost recovery mechanisms authorized as a result of a state/federal declared emergency, and are therefore recognized as regulatory assets for future recovery. As a result, the amounts recorded in the COVID-19 emergency-related memorandum accounts have not impacted GSWC's or BVESI's earnings.

ASUS has experienced some delays in receiving contract modifications from the U.S. government for additional construction projects due to government staffing shortages resulting from the COVID-19 pandemic but this has not had a material impact on its current operations.

**Utility Accounting:** Registrant's accounting policies conform to accounting principles generally accepted in the United States of America ("GAAP"), including the accounting principles for rate-regulated enterprises, which reflect the ratemaking policies of the CPUC and, to the extent applicable, the Federal Energy Regulatory Commission. GSWC and BVESI have incurred various costs and received various credits reflected as regulatory assets and liabilities. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with the guidance for accounting for the effects of certain types of regulation. This guidance sets forth the application of GAAP for those companies whose rates are established by or are subject to approval by an independent third-party regulator.

Under such accounting guidance, rate-regulated entities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the ratemaking process in a period different from the period in which they would have been reflected in income by an unregulated company. These regulatory assets and liabilities are then recognized in the income statement in the period in which the same amounts are reflected in the rates charged for service. The amounts included as regulatory assets and liabilities that will be collected or refunded over a period exceeding one year are classified as long-term assets and liabilities as of December 31, 2022 and 2021.

**Property and Depreciation:** Registrant's property consists primarily of regulated utility plant at GSWC and BVESI. GSWC and BVESI capitalize, as utility plant, the cost of construction and the cost of additions, betterments and replacements of retired units of property. Such costs includes labor, material and certain indirect charges. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less accumulated depreciation, and the purchase price, if recognized by the CPUC, is recorded as an acquisition adjustment within utility plant.

Depreciation for the regulated utilities is computed on the straight-line, remaining-life basis, group method, in accordance with the applicable ratemaking process. The provision for depreciation expressed as a percentage of the aggregate depreciable asset balances for regulated utilities was 2.2% for each of the years 2022, 2021 and 2020. Depreciation expense for regulated utilities, excluding amortization expense and depreciation on transportation equipment, totaled \$37.3 million, \$35.5 million and \$32.9 million for the years ended December 31, 2022, 2021 and 2020, respectively. Depreciation computed on regulated utilities' transportation equipment is recorded in other operating expenses and totaled \$382,000, \$379,000 and \$353,000 for the years 2022, 2021 and 2020, respectively. Expenditures for maintenance and repairs are expensed as incurred. Retired property costs, including costs of removal, are charged to the accumulated provision for depreciation.

Estimated useful lives of regulated utilities' utility plant, as authorized by the CPUC, are as follows:

|                               |                      |
|-------------------------------|----------------------|
| Source of water supply        | 30 years to 50 years |
| Pumping                       | 25 years to 40 years |
| Water treatment               | 20 years to 35 years |
| Transmission and distribution | 25 years to 55 years |
| Generation                    | 40 years             |
| Other plant                   | 7 years to 40 years  |

Non-regulated property consists primarily of equipment utilized by ASUS and its subsidiaries for its operations. This property is stated at cost, net of accumulated depreciation, which is calculated using the straight-line method over the useful lives of the assets.

**Asset Retirement Obligations:** GSWC has a legal obligation for the retirement of its wells, which by law need to be properly capped at the time of removal. As such, GSWC incurs asset retirement obligations. GSWC records the fair value of a liability for these asset retirement obligations in the period in which they are incurred. When the liability is initially recorded, GSWC capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, GSWC either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Retirement costs have historically been recovered through rates subsequent to the retirement costs being incurred. Accordingly, recoverability of GSWC's asset retirement obligations are reflected as a regulatory asset. GSWC also reflects the loss or gain at settlement as a regulatory asset or liability on the balance sheet.

With regards to removal costs associated with certain other long-lived assets, such as water mains, distribution and transmission assets, asset retirement obligations have not been recognized as GSWC believes there is no legal obligation to do so. There are no CPUC rules or regulations that require GSWC to remove any of its other long-lived assets. In addition, GSWC's water pipelines are not subject to regulation by any federal regulatory agency. GSWC has franchise agreements with various municipalities in order to use the public right of way for utility purposes (i.e., operate water distribution and transmission assets), and if certain events occur in the future, GSWC could be required to remove or relocate certain of its pipelines. However, it is not possible to estimate an asset retirement amount since the timing and the amount of assets that may be required to be removed, if any, is not known.

Amounts recorded for asset retirement obligations are subject to various assumptions and determinations, such as determining whether a legal obligation exists to remove assets, estimating the fair value of the costs of removal, when final removal will occur and the credit-adjusted risk-free interest rates to be utilized on discounting future liabilities. Changes that may arise over time with regard to these assumptions will change amounts recorded in the future. Revisions in estimates for

timing or estimated cash flows are recognized as changes in the carrying amount of the liability and the related capitalized asset. The estimated fair value of the costs of removal was based on third-party costs.

**Impairment of Long-Lived Assets:** Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable in accordance with accounting guidance for impairment or disposal of long-lived assets. Registrant would recognize an impairment loss on its regulated assets only if the carrying value amount of a long-lived asset is not recoverable from customer rates authorized by the CPUC. Impairment loss is measured as the excess of the carrying value over the amounts recovered in customer rates. For the years ended December 31, 2022, 2021 and 2020, no impairment loss was incurred.

**Goodwill:** At December 31, 2022 and 2021, AWR had approximately \$1.1 million of goodwill. The \$1.1 million goodwill arose from ASUS's acquisition of a subcontractor's business at some of the Military Utility Privatization Subsidiaries. In accordance with the accounting guidance for testing goodwill, AWR annually assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. For 2022 and 2021, AWR's assessment of qualitative factors did not indicate that an impairment had occurred for goodwill at ASUS.

**Cash and Cash Equivalents:** Cash and cash equivalents include short-term cash investments with an original maturity of three months or less. At times, cash and cash equivalent balances may be in excess of federally insured limits. Cash and cash equivalents are held with financial institutions with high credit standings.

**Accounts Receivable:** Accounts receivable is reported on the balance sheet net of any allowance for doubtful accounts. The allowance for doubtful accounts is Registrant's best estimate of the amount of probable credit losses in Registrant's existing accounts receivable from its water and electric customers, and is determined based on expected losses rather than incurred losses. Registrant reviews the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered. When utility customers request extended payment terms, credit is extended based on regulatory guidelines, and collateral is not required.

Receivables from the U.S. government include amounts due under contracts with the U.S. government to operate and maintain, and/or provide construction services for the water and/or wastewater systems at military bases. Other accounts receivable consist primarily of amounts due from third parties (non-utility customers) for various reasons, including amounts due from contractors, amounts due under settlement agreements and amounts due from other third-party prime government contractors pursuant to agreements for construction of water and/or wastewater facilities for such third-party prime contractors. The allowance for these other accounts receivable is based on Registrant's evaluation of the receivable portfolio under current conditions and a review of specific problems and such other factors that, in Registrant's judgment, should be considered in estimating losses. Allowances for doubtful accounts are disclosed in Note 18.

**Materials and Supplies:** Materials and supplies are stated at the lower of cost or net realizable value. Cost is computed using weighted average cost. Major classes of materials include pipe, meters, hydrants and valves.

**Interest:** Interest incurred during the construction of capital assets has generally not been capitalized for financial reporting purposes as such policy is not followed in the ratemaking process. Interest expense is generally recovered through the regulatory process. At times, the CPUC has authorized certain capital projects to be filed for revenue recovery with advice letters when those projects are completed. During the time that such projects are under development and construction, GSWC or BVESI may accrue an allowance for funds used during construction ("AFUDC") on the incurred expenditures to offset the cost of financing project construction. For the year ended December 31, 2022, 2021 and 2020, BVESI recorded \$106,000, \$216,000 and \$200,000, respectively in AFUDC.

**Debt Issuance Costs and Redemption Premiums:** Original debt issuance costs are deducted from the carrying value of the associated debt liability and amortized over the lives of the respective issuances. Premiums paid on the early redemption of debt are deferred as regulatory assets and amortized over the period that GSWC and BVESI recovers such costs in rates, which is generally over the term of the new debt issued to finance early debt redemption. At December 31, 2022 and 2021, Registrant's long-term debt have been issued by GSWC and BVESI.

**Advances for Construction and Contributions in Aid of Construction:** Advances for construction represent amounts advanced by developers for the cost to construct water system facilities in order to extend water service to their properties. Advances are refundable in equal annual installments, generally over 40 years. In certain instances, GSWC makes refunds on these advances over a specific period of time based on operating revenues related to the main or as new customers are connected to receive service from the main. Contributions in aid of construction are similar to advances but require no refunding. Generally, GSWC and BVESI depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Utility plant funded by advances and contributions is excluded from rate base.

**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 AWR and GSWC, respectively. At December 31, 2022, the outstanding long-term debt held by AWR includes \$35.0 million of new debt issued in April 2022 by BVESI and debt held by GSWC. As of December 31, 2021, all outstanding long-term debt was held by GSWC. Rates available to AWR and GSWC at December 31, 2022 and 2021 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.

| (dollars in thousands) | 2022            |            | 2021            |            |
|------------------------|-----------------|------------|-----------------|------------|
|                        | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt—AWR (1) | \$ 450,373      | \$ 424,151 | \$ 415,788      | \$ 490,852 |

| (dollars in thousands)  | 2022            |            | 2021            |            |
|-------------------------|-----------------|------------|-----------------|------------|
|                         | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt—GSWC (1) | \$ 415,373      | \$ 391,198 | \$ 415,788      | \$ 490,852 |

(1) Excludes debt issuance costs and redemption premiums.

The accounting guidance for fair value measurements applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. Under the accounting guidance, Registrant makes fair value measurements on its publicly issued notes, private placement notes and other long-term debt using current U.S. corporate bond yields for similar debt instruments. Under the fair value guidance, these are classified as Level 2, which consists of 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.

The following table sets forth by level, within the fair value hierarchy, Registrant's long-term debt measured at fair value as of December 31, 2022:

| (dollars in thousands) | Level 1 | Level 2    | Level 3 | Total      |
|------------------------|---------|------------|---------|------------|
| Long-term debt—AWR     | —       | \$ 424,151 | —       | \$ 424,151 |

| (dollars in thousands) | Level 1 | Level 2    | Level 3 | Total      |
|------------------------|---------|------------|---------|------------|
| Long-term debt—GSWC    | —       | \$ 391,198 | —       | \$ 391,198 |

**Stock-Based Awards:** AWR has issued stock-based awards to its employees under stock incentive plans. AWR has also issued stock-based awards to its Board of Directors under non-employee directors stock plans. Registrant applies the provisions in the accounting guidance for share-based payments in accounting for all of its stock-based awards. See Note 13 for further discussion.

#### Recently Issued Accounting Pronouncements:

##### *Accounting Pronouncements Adopted in 2022*

In November 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-10 *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. The amendments in this update require disclosures about transactions with a government such as government grants or assistance. The amendments were effective for all applicable entities for financial statements issued for annual periods beginning after December 15, 2021. This guidance update did not have a material impact on Registrant's financial statement disclosures.

#### **Note 2 — Revenues**

Most of Registrant's revenues are accounted for under the revenue recognition accounting standard, "Revenue from Contracts with Customers - (Topic 606)."

GSWC and BVESI provide utility services to customers as specified by the CPUC. The transaction prices for water and electric revenues are based on tariff rates authorized by the CPUC, which include both quantity-based and flat-rate charges. Tariff revenues represent the adopted revenue requirement authorized by the CPUC intended to provide GSWC and BVESI with an opportunity to recover its costs and earn a reasonable return on its net capital investment. The annual revenue requirements are comprised of supply costs, operation and maintenance costs, administrative and general costs, depreciation and taxes in amounts authorized by the CPUC, and a return on rate base consistent with the capital structure authorized by the CPUC.

Water and electric revenues are recognized over time as customers simultaneously receive and use the utility services provided. Water and electric revenues include amounts billed to customers on a cyclical basis, nearly all of which are based on meter readings for services provided. Customer bills also include surcharges for cost-recovery activities, which represent CPUC-authorized balancing and memorandum accounts that allow for the recovery of previously incurred operating costs. Revenues from these surcharges do not impact earnings as they are offset by corresponding increases in operating expenses to reflect the recovery of the associated costs. Customer payment terms are approximately 20 business days from the billing date. Unbilled revenues are amounts estimated to be billed for usage since the last meter-reading date to the end of the accounting period. The most recent customer billed usage forms the basis for estimating unbilled revenue.

GSWC and BVESI bill 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 are paid to various municipalities and counties (based on their ordinances) in order to use public rights of way for utility purposes. GSWC and BVESI bill these franchise fees to its customers based on a CPUC-authorized rate for each ratemaking area as applicable. These franchise fees, which are required to be paid regardless of GSWC's or BVESI's ability to collect them from its customers, are accounted for on a gross basis. Franchise fees billed to customers and recorded as operating revenue were approximately \$4.0 million, \$4.2 million and \$3.8 million for the years ended December 31, 2022, 2021 and 2020, respectively. When GSWC or BVESI acts as an agent, where the tax is not required to be remitted if it is not collected from customers, the tax is accounted for on a net basis.

As currently authorized by the CPUC, GSWC and BVESI record in revenues the difference between the adopted level of volumetric revenues as authorized by the CPUC for metered accounts (volumetric revenues) and the actual volumetric revenues recovered in customer rates. For GSWC, the difference is tracked under the Water Revenue Adjustment Mechanism ("WRAM") regulatory accounts, and for BVESI the difference is tracked in the Base Revenue Requirement Adjustment Mechanism ("BRRAM") regulatory account. If this difference results in an under-collection of revenues, additional revenue is recorded only to the extent that the difference is expected to be collected within 24 months following the end of the year in which they are recorded in accordance with Accounting Standards Codification ("ASC") Topic 980, *Regulated Operations*.

ASUS's initial 50-year firm fixed-price contract and additional firm fixed-price contracts, together referred to as ("50-year contract") with the U.S. government are considered service concession arrangements under ASC 853 *Service Concession Arrangements*. Accordingly, the services under these contracts are accounted for under Topic 606 *Revenue from Contracts with Customers* and the water and/or wastewater systems are not recorded as Property, Plant and Equipment on Registrant's balance sheet. For ASUS, performance obligations consist of (i) performing ongoing operation and maintenance of the water and/or wastewater systems and treatment plants for each military base served, and (ii) performing construction activities (including renewal and replacement capital work) on each military base served. The transaction price for each performance obligation is either delineated in, or initially derived from, the applicable 50-year contract and/or any subsequent contract modifications. Depending on the state in which operations are conducted, the Military Utility Privatization Subsidiaries are also subject to certain state non-income tax assessments, which are accounted for on a gross basis and have been immaterial to date.

The ongoing performance of operation and maintenance of the water and/or wastewater systems and treatment plants is viewed as a single performance obligation for each 50-year contract with the U.S. government. Registrant recognizes revenue for operations and maintenance fees monthly using the "right to invoice" practical expedient under ASC Topic 606. ASUS has a right to consideration from the U.S. government in an amount that corresponds directly to the value to the U.S. government of ASUS's performance completed to-date. The contractual operations and maintenance fees are firm-fixed, and the level of effort or resources expended in the performance of the operations-and-maintenance-fees performance obligation is largely consistent over the 50-year term. Therefore, Registrant has determined that the monthly amounts invoiced for operations and maintenance performance are a fair reflection of the value transferred to the U.S. government. Invoices to the U.S. government for operations and maintenance service, as well as construction activities, are due upon receipt.

ASUS's construction activities consist of various projects to be performed. Each of these capital upgrade projects' transaction prices are delineated either in the 50-year contract or through a specific contract modification for each construction project, which includes the transaction price for that project. For renewal and replacement projects, the initial transaction price is based on the individual scope of work in accordance with contractual unit prices within the 50-year contract. Each construction project is viewed as a separate, single performance obligation. Therefore, it is generally unnecessary to allocate a construction transaction price to more than one construction performance obligation. Revenues for construction activities are recognized over time, with progress toward completion measured based on the input method using costs incurred relative to the total estimated costs (cost-to-cost method). Due to the nature of these construction projects, Registrant has determined the cost-to-cost input measurement to be the best method to measure progress towards satisfying its construction contract performance obligations, as compared to using an output measurement such as units produced. Changes in job performance, job site conditions, change orders and/or estimated profitability may result in revisions to costs and income for ASUS, and are recognized in the period in which any such revisions are determined. Pre-contract costs for ASUS, which consist of design and

engineering labor costs, are deferred if recovery is probable, and are expensed as incurred if recovery is not probable. Deferred pre-contract costs have been immaterial to date.

Contracted services revenues recognized during the years ended December 31, 2022, 2021 and 2020 from performance obligations satisfied in previous periods were not material.

Although GSWC and BVESI have a diversified base of residential, commercial, industrial and other customers, revenues derived from residential and commercial customers account for nearly 90% of total water revenues, and 90% of total electric revenues. The vast majority of ASUS's revenues are from the U.S. government. For the years ended December 31, 2022, 2021, and 2020, disaggregated revenues from contracts with customers by segment are as follows:

| (dollar in thousands)                                      | For The Year Ended<br>December 31, 2022 | For The Year Ended<br>December 31, 2021 | For The Year Ended<br>December 31, 2020 |
|--|---|---|---|
| <b>Water:</b>  |   |   |   |
| Tariff-based revenues                                      | \$ 324,838                              | \$ 345,562                              | \$ 329,670                              |
| CPUC-approved surcharges (cost-recovery activities)        | 2,461                                   | 3,280                                   | 3,736                                   |
| Other  | 2,351                                   | 2,227                                   | 2,100                                   |
| Water revenues from contracts with customers               | 329,650                                 | 351,069                                 | 335,506                                 |
| WRAM under/(over)-collection (alternative revenue program) | 10,952                                  | (3,957)                                 | (4,869)                                 |
| <b>Total water revenues</b>                                | <b>340,602</b>                          | <b>347,112</b>                          | <b>330,637</b>                          |
| <b>Electric:</b>   |   |   |   |
| Tariff-based revenues                                      | 39,750                                  | 37,124                                  | 35,283                                  |
| CPUC-approved surcharges (cost-recovery activities)        | 144                                     | 310                                     | 686                                     |
| Electric revenues from contracts with customers            | 39,894                                  | 37,434                                  | 35,969                                  |
| BRRAM under-collection (alternative revenue program)       | 92                                      | 911                                     | 1,055                                   |
| <b>Total electric revenues</b>                             | <b>39,986</b>                           | <b>38,345</b>                           | <b>37,024</b>                           |
| <b>Contracted services:</b>                                |   |   |   |
| Water  | 68,626                                  | 71,210                                  | 74,898                                  |
| Wastewater   | 42,314                                  | 42,186                                  | 45,684                                  |
| Contracted services revenues from contracts with customers | 110,940                                 | 113,396                                 | 120,582                                 |
| <b>Total revenues</b>                                      | <b>\$ 491,528</b>                       | <b>\$ 498,853</b>                       | <b>\$ 488,243</b>                       |

The opening and closing balances of the receivable from the U.S. government, contract assets and contract liabilities from contracts with customers, which related entirely to ASUS, are as follows:

| (dollar in thousands)               | December 31, 2022 | December 31, 2021 |
|-------------------------------------|-------------------|-------------------|
| Unbilled receivables                | \$ 10,125         | \$ 14,835         |
| Receivable from the U.S. government | \$ 85,456         | \$ 79,818         |
| Contract assets                     | \$ 14,982         | \$ 9,587          |
| Contract liabilities                | \$ 903            | \$ 257            |

Unbilled receivables and Receivable from the U.S. government represent receivables where the right to payment is conditional only by the passage of time.

Contract Assets - Contract assets are assets of ASUS and consist of unbilled revenues recognized from work-in-progress construction projects, where the right to payment is conditional on something other than the passage of time. The classification of this asset as current or noncurrent is based on the timing of when ASUS expects to bill these amounts.



**Contract Liabilities** - Contract liabilities are liabilities of ASUS and consist of billings in excess of revenue recognized. The classification of this liability as current or noncurrent is based on the timing of when ASUS expects to recognize revenue. Revenues for the twelve months ended December 31, 2022, which were included in contract liabilities at the beginning of the period were not material.

As of December 31, 2022, AWR's aggregate remaining performance obligations, which are entirely for the contracted services segment, were \$3.4 billion. AWR expects to recognize revenue on these remaining performance obligations over the remaining terms of each of the 50-year contracts, which range from 32 to 46 years. Each of the contracts with the U.S. government is subject to termination, in whole or in part, prior to the end of its 50-year term for the convenience of the U.S. government.

**Note 3 — Regulatory Matters**

In accordance with accounting principles for rate-regulated enterprises, GSWC and BVESI records regulatory assets, which represent probable future recovery of costs from customers through the ratemaking process, and regulatory liabilities, which represent probable future refunds that are to be credited to customers through the ratemaking process. At December 31, 2022, GSWC and BVESI had approximately \$85.0 million of regulatory liabilities, net of regulatory assets, not accruing carrying costs. Of this amount, (i) \$75.7 million of regulatory liabilities are excess deferred income taxes arising from the lower federal income tax rate under the Tax Cuts and Jobs Act enacted in December 2017 that are being refunded to customers (Note 11), (ii) \$1.1 million of net regulatory liabilities relates to flow-through deferred income taxes including the gross-up portion on the deferred tax resulting from the excess deferred income tax regulatory liability (Note 11), (iii) \$2.2 million of regulatory assets relates to the underfunded position in Registrant's pension and other post-retirement obligations (excluding the two-way pension balancing accounts), and (iv) \$11.8 million regulatory liability related to a memorandum account authorized by the CPUC to track unrealized gains and losses on BVESI's purchase power contracts over the term of the contracts. The remainder relates to other items that do not provide for or incur carrying costs.

Regulatory assets represent costs incurred by GSWC and/or BVESI for which they have received or expect to receive rate recovery in the future. In determining the probability of costs being recognized in other periods, GSWC and BVESI consider regulatory rules and decisions, past practices, and other facts or circumstances that would indicate if recovery is probable. If the CPUC determines that a portion of either GSWC's or BVESI's assets are not recoverable in customer rates, the applicable utility must determine if it has suffered an asset impairment that requires it to write down the asset's value. Regulatory assets are offset against regulatory liabilities within each ratemaking area. Amounts expected to be collected or refunded in the next twelve months have been classified as current assets and current liabilities by ratemaking area. Regulatory liabilities, less regulatory assets, included in the consolidated balance sheets are as follows:

| (dollars in thousands)  | December 31,       |                    |
|---|--------------------|--------------------|
|   | 2022               | 2021               |
| <b>GSWC</b>   |                    |                    |
| Water Revenue Adjustment Mechanism, net of the Modified Cost Balancing Account  | \$ 31,803          | \$ 13,326          |
| Pensions and other post-retirement obligations (Note 12)                        | 738                | 25,212             |
| COVID-19 memorandum account   | 3,478              | 1,663              |
| Other regulatory assets   | 19,226             | 16,949             |
| Excess deferred income taxes (Note 11)  | (71,870)           | (73,000)           |
| Flow-through taxes, net (Note 11)   | (1,134)            | (5,552)            |
| Other regulatory liabilities  | (8,815)            | (2,680)            |
| <b>Total GSWC</b>   | <b>\$ (26,574)</b> | <b>\$ (24,082)</b> |
| <b>BVESI</b>  |                    |                    |
| Derivative instrument memorandum account (Note 5)                               | (11,847)           | (4,441)            |
| Wildfire mitigation and other fire prevention related costs memorandum accounts | 13,007             | 8,557              |
| Other regulatory assets   | 7,965              | 5,359              |
| Other regulatory liabilities  | (8,005)            | (8,189)            |
| <b>Total AWR</b>  | <b>\$ (25,454)</b> | <b>\$ (22,796)</b> |

**Water General Rate Case:**

In July 2020, GSWC filed a general rate case application for all of its water regions and its general office. This general rate case will determine new water rates for the years 2022–2024. In November 2021, GSWC and the Public Advocates Office at the CPUC ("Public Advocates") filed with the CPUC a joint motion to adopt a settlement agreement between GSWC and Public Advocates on this general rate case application. The settlement agreement, if approved, resolves all issues related to the 2022 annual revenue requirement in the general rate case application, with the exception of three unresolved issues. Due to the delay in finalizing the water general rate case, water revenues billed and recorded for the year ended December 31, 2022 were based on 2021 adopted rates, pending a final decision by the CPUC in this general rate case application. When approved, the new rates will be retroactive to January 1, 2022, and cumulative adjustments will be recorded upon receiving a decision by the CPUC that approves the settlement agreement. In January 2023, the CPUC issued a decision approving a second request for extension of the statutory deadline for a final decision in the water general rate case proceeding to April 7, 2023.

**Cost of Capital Proceeding:**

GSWC filed a cost of capital application in May 2021 currently pending CPUC approval. Hearings on this proceeding occurred in May 2022 and briefs were filed in June 2022. Based on management's analysis of this regulatory proceeding and associated accounting to date, for the year ended December 31, 2022, GSWC reduced revenues by \$6.4 million and recorded a corresponding regulatory liability for revenues subject to refund based on its best estimate, which relates to the impact of GSWC's lower cost of debt requested in its application. However, at this time, management cannot predict the ultimate outcome of the cost of capital application and the associated impact on 2022 revenues. Changes in estimates will be made, if necessary, as more information in this proceeding becomes available.

**Alternative-Revenue Programs:**

GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC using the Water Revenue Adjustment Mechanism ("WRAM") and the Modified Cost Balancing Account ("MCBA") accounts approved by the CPUC. The over- or under-collection of the WRAM is aggregated with the MCBA over- or under-collection for the corresponding ratemaking area and bears interest at the current 90-day commercial-paper rate. Surcharges and surcredits have been implemented for all pre-2022 WRAM/MCBA balances. During the year ended December 31, 2022, \$4.4 million of pre-2022 WRAM/MCBA balances were recovered through surcharges.

During 2022, GSWC recorded an additional \$22.8 million net under-collection in the WRAM/MCBA, based on 2021 authorized amounts, pending a final decision on the water general rate case. Once the CPUC issues a final decision on the general rate case, the WRAM and MCBA amounts recorded in 2022 will be updated to reflect the authorized 2022 amounts. The 2022 WRAM/MCBA balances represent under-collections in WRAM amounts due to a decrease in customer consumption as compared to adopted, as well as an under-collection of supply costs incurred and recorded in the MCBA due to a higher volume of purchased water as compared to adopted. As of December 31, 2022, GSWC had an aggregated regulatory asset of \$31.8 million, which is comprised of a \$17.2 million under-collection in the WRAM accounts and a \$14.6 million under-collection in the MCBA accounts.

As required by the accounting guidance for alternative revenue programs, GSWC is required to collect its WRAM balances within 24 months following the end of the year in which an under-collection is recorded. As of December 31, 2022, there were no material WRAM under-collections that were estimated to be collected over more than 24 months.

**Pensions and Other Post-retirement Obligations:**

A regulatory asset has been recorded at December 31, 2022 and 2021 for the costs that would otherwise be charged to "other comprehensive income" within shareholders' equity for the underfunded status of Registrant's pension and other post-retirement benefit plans because the cost of these plans has historically been recovered through rates. As discussed in Note 12, as of December 31, 2022, Registrant's underfunded position for these plans that have been recorded as a regulatory asset totaled \$2.2 million. Registrant expects this regulatory asset to be recovered through rates in future periods.

The CPUC has authorized GSWC and BVESI to each use two-way balancing accounts to track differences between the forecasted annual pension expenses adopted in their respective customer rates and the actual annual expense to be recorded in accordance with the accounting guidance for pension costs. The two-way balancing accounts bear interest at the current 90-day commercial paper rate. As of December 31, 2022, GSWC has a \$1.5 million over-collection related to the general office and water regions, and BVESI has a \$496,000 over-collection in its two-way balancing account.

**COVID-19 Emergency Memorandum Accounts:**

During the first half of 2022, GSWC and BVESI continued to experience delinquent customer accounts receivable due to the lingering effects of the COVID-19 pandemic, resulting in both GSWC and BVESI increasing their allowances for doubtful accounts since the end of 2021. The CPUC has authorized GSWC and BVESI to track incremental costs, including bad debt expense, in excess of what is included in their respective revenue requirements incurred as a result of the pandemic in COVID-19 emergency-related memorandum accounts, which GSWC and BVESI intend to file with the CPUC for future recovery.

As of December 31, 2022, GSWC and BVESI had approximately \$3.5 million and \$497,000, respectively, in regulatory asset accounts related to bad debt expense in excess of their revenue requirements, the purchase of personal protective equipment, additional incurred printing costs, and other incremental COVID-19-related costs. Emergency-related memorandum accounts are well-established cost recovery mechanisms authorized as a result of a state/federal declared emergency, and are therefore recognized as regulatory assets for future recovery. As a result, the amounts recorded in the COVID-19 emergency-related memorandum accounts have not impacted GSWC's or BVESI's earnings.

In January 2022, GSWC received \$9.5 million in COVID relief funds through the California Water and Wastewater Arrearage Payment Program to provide assistance to customers for their water debt accrued during the COVID-19 pandemic by

remitting federal funds that the state received from the American Rescue Plan Act of 2021 to the utility on behalf of eligible customers. GSWC applied these funds to its delinquent customers' eligible balances. During 2022, BVESI received a total of \$473,000 from the state of California for similar customer relief funding for unpaid electric customer bills incurred during the pandemic.

The CPUC requires that amounts tracked in GSWC's and BVESI's COVID-19 memorandum accounts for unpaid customer bills be first offset by any (i) federal and state relief for water or electric utility bill debt, and (ii) customer payments through payment plan arrangements, prior to receiving recovery from customers at large. After these offsets are made, GSWC will file with the CPUC for recovery of the remaining balance. BVESI intends to include the remaining balance in its COVID-19 memorandum account for recovery once all alternative sources of funding have been exhausted and credited to eligible customer accounts.

The CPUC's moratoriums on service disconnections for nonpayment for water and electric customers have ended. As a result, service disconnections due to nonpayment have resumed with disconnections for delinquent residential customers having resumed in June 2022.

#### Other BVESI Regulatory Assets:

##### *Wildfire Mitigation and Other Fire Prevention Related Costs Memorandum Accounts*

The CPUC adopted regulations intended to enhance the fire safety of overhead electric power lines. Those regulations included increased minimum clearances around electric power lines. BVESI was authorized to track incremental costs incurred to implement the regulations in a fire hazard prevention memorandum account for the purpose of obtaining cost recovery in a future general rate case. In August 2019, the CPUC issued a final decision on the electric general rate case, which set new rates through the year 2022. Among other things, the decision authorized BVESI to record incremental costs related to vegetation management, such as costs for increased minimum clearances around electric power lines, in the CPUC-approved memorandum account for future recovery. As of December 31, 2022, BVESI has approximately \$8.7 million in incremental vegetation management costs recorded as a regulatory asset, which has been included in its general rate case application filed with the CPUC in August 2022 for future recovery. The incremental costs related to vegetation management included in the memorandum account will be subject to review during the general rate case proceeding.

California legislation enacted in September 2018 requires all investor-owned electric utilities to submit an annual wildfire mitigation plan ("WMP") to the CPUC for approval. The WMP must include a utility's plans on constructing, maintaining and operating its electrical lines and equipment to minimize the risk of catastrophic wildfire. BVESI submitted an update to its WMP in May 2022 to OEIS for approval prior to going to the CPUC for ratification. In December 2022, OEIS issued a final decision of approval to BVESI for its 2022 WMP update and in February 2023, the CPUC ratified BVESI's current WMP.

Capital expenditures and other costs incurred as a result of the WMP are subject to CPUC audit. As a result, the CPUC's Wildfire Safety Division (now part of the California Natural Resources Agency effective July 1, 2021) engaged an independent accounting firm to conduct examinations of the expenses and capital investments identified in the 2019 and 2020 WMPs for each of the investor-owned electric utilities, including BVESI. As of December 31, 2022, BVESI has approximately \$4.3 million related to expenses accumulated in its WMP memorandum accounts that have been recognized as regulatory assets for future recovery. In December 2021, the independent accounting firm issued its final examination report, which contains the auditors' results and recommendations. While the final report did not identify any findings of inappropriate costs included in the WMP memorandum accounts under review, the report suggested that the CPUC should evaluate whether some of the costs recorded in the WMP memorandum accounts are incremental to what is being recovered in customer rates in its general rate case proceeding. At this time, BVESI considers the auditor's examination complete and does not expect further developments.

All capital expenditures and other costs incurred through December 31, 2022 as a result of BVESI's WMPs are not currently in rates and have been filed for future recovery in BVESI's general rate case application. These costs will be subject to review during the general rate case proceeding and the CPUC may refer to the recommendations of the independent auditor's report at that time.

#### Other Regulatory Assets:

Other regulatory assets represent costs incurred by GSWC or BVESI for which they have received or expect to receive rate recovery in the future. Registrant believes that these regulatory assets are supported by regulatory rules and decisions, past practices, and other facts or circumstances that indicate recovery is probable. If the CPUC determines that a portion of either GSWC's or BVESI's assets are not recoverable in customer rates, the applicable entity must determine if it has suffered an asset impairment that requires it to write down the regulatory asset to the amount that is probable of recovery.

**Note 4 — Utility Plant and Intangible Assets**

The following table shows Registrant's utility plant (regulated utility plant and non-regulated utility property) by major asset class:

| (dollars in thousands)          | AWR<br>December 31, |                     | GSWC<br>December 31, |                     |
|---------------------------------|---------------------|---------------------|----------------------|---------------------|
|                                 | 2022                | 2021                | 2022                 | 2021                |
| <b>Water</b>                    |                     |                     |                      |                     |
| Land                            | \$ 18,427           | \$ 18,207           | \$ 18,427            | \$ 18,207           |
| Intangible assets               | 30,511              | 29,028              | 30,511               | 29,028              |
| Source of water supply          | 109,918             | 98,244              | 109,918              | 98,244              |
| Pumping                         | 227,668             | 209,936             | 227,668              | 209,936             |
| Water treatment                 | 90,411              | 83,922              | 90,411               | 83,922              |
| Transmission and distribution   | 1,431,437           | 1,356,649           | 1,431,437            | 1,356,649           |
| Other                           | 136,162             | 139,895             | 98,096               | 102,831             |
|                                 | <u>2,044,534</u>    | <u>1,935,881</u>    | <u>2,006,468</u>     | <u>1,898,817</u>    |
| <b>Electric (Note 20)</b>       |                     |                     |                      |                     |
| Transmission and distribution   | 105,499             | 90,491              | —                    | —                   |
| Generation                      | 12,583              | 12,583              | —                    | —                   |
| Other (1)                       | 15,733              | 13,398              | —                    | —                   |
|                                 | <u>133,815</u>      | <u>116,472</u>      | <u>—</u>             | <u>—</u>            |
| Less — accumulated depreciation | (606,231)           | (594,264)           | (530,925)            | (522,672)           |
| Construction work in progress   | 181,648             | 167,915             | 141,175              | 123,600             |
| Net utility plant               | <u>\$ 1,753,766</u> | <u>\$ 1,626,004</u> | <u>\$ 1,616,718</u>  | <u>\$ 1,499,745</u> |

(1) Includes intangible assets of \$1.2 million for the years ended December 31, 2022 and 2021 for studies performed in association with the electric segment.

As of December 31, 2022 and 2021, intangible assets consist of the following:

| (dollars in thousands)                            | Weighted Average<br>Amortization<br>Period | AWR<br>December 31, |                 | GSWC<br>December 31, |                 |
|---|--|---------------------|-----------------|----------------------|-----------------|
|   |  | 2022                | 2021            | 2022                 | 2021            |
| <b>Intangible assets:</b>                         |  |                     |                 |                      |                 |
| Conservation programs                             | 3 years                                    | \$ 9,486            | \$ 9,486        | \$ 9,486             | \$ 9,486        |
| Water and service rights (2)                      | 30 years                                   | 8,695               | 8,695           | 8,124                | 8,124           |
| Water planning studies                            | 14 years                                   | 13,757              | 12,258          | 12,519               | 11,019          |
| Total intangible assets                           |  | 31,938              | 30,439          | 30,129               | 28,629          |
| Less — accumulated amortization                   |  | (26,811)            | (26,401)        | (25,374)             | (25,109)        |
| Intangible assets, net of amortization            |  | <u>\$ 5,127</u>     | <u>\$ 4,038</u> | <u>\$ 4,755</u>      | <u>\$ 3,520</u> |
| Intangible assets not subject to amortization (3) |  | <u>\$ 383</u>       | <u>\$ 400</u>   | <u>\$ 382</u>        | <u>\$ 399</u>   |

(2) Includes intangible assets of \$571,000 for contracted services included in "Other Property and Investments" on the consolidated balance sheets as of December 31, 2022 and 2021.

(3) The intangible assets not subject to amortization primarily consist of organization and consent fees.

For the years ended December 31, 2022, 2021 and 2020, amortization of intangible assets was \$641,000, \$700,000 and \$654,000, respectively, for both AWR and GSWC.

Estimated future consolidated amortization expense related to intangible assets are as follows (in thousands):

|       | Amortization<br>Expense |
|-------|-------------------------|
| 2023  | \$ 641                  |
| 2024  | 641                     |
| 2025  | 641                     |
| 2026  | 641                     |
| 2027  | 641                     |
| Total | <u>\$ 3,205</u>         |

**Asset Retirement Obligations:**

The following is a reconciliation of the beginning and ending aggregate carrying amount of asset retirement obligations, which are included in "Other Credits" on the balance sheets as of December 31, 2022 and 2021:

| (dollars in thousands)          | GSWC             |
|---------------------------------|------------------|
| Obligation at December 31, 2020 | \$ 9,320         |
| Additional liabilities incurred | 148              |
| Liabilities settled             | (120)            |
| Accretion                       | 369              |
| Obligation at December 31, 2021 | \$ 9,717         |
| Accretion                       | 386              |
| Obligation at December 31, 2022 | <u>\$ 10,103</u> |

**Note 5 — Derivative Instruments**

BVESI has purchased power under long-term contracts at a fixed cost over three and five-year terms depending on the amount of power and period during which the power is purchased under the contracts. These long-term contracts are subject to the accounting guidance for derivatives and require mark-to-market derivative accounting. Among other things, the CPUC authorized BVESI to establish a regulatory asset and liability memorandum account to offset the mark-to-market entries required by the accounting guidance. Accordingly, all unrealized gains and losses generated from these purchased power contracts are deferred on a monthly basis into a non-interest bearing regulatory memorandum account that tracks the changes in fair value of the derivative throughout the term of the contract. As a result, these unrealized gains and losses do not impact Registrant's earnings. As of December 31, 2022, there was an \$11.8 million derivative asset with a corresponding regulatory liability in the derivative instrument memorandum account for the purchased power contract as a result of the fixed prices being lower than the futures energy prices. The notional volume of derivatives remaining under these long-term contracts as of December 31, 2022 was approximately 216,471 megawatt hours.

The accounting guidance for fair value measurements establishes a framework for measuring fair value and requires fair value measurements to be classified and disclosed in one of three levels. 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 these derivative instruments were estimated based on independent sources such as broker quotes and publications that are not observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3. Accordingly, the valuation of the derivatives on Registrant's purchased power contracts have been classified as Level 3 for all periods presented.

The change in fair value was due to the change in market energy prices for the years 2022 and 2021. The following table presents changes in the fair value of the Level 3 derivatives for the years 2022 and 2021:

| (dollars in thousands)                       | 2022             | 2021            |
|--|------------------|-----------------|
| Fair value at beginning of the period        | \$ 4,441         | \$ (1,537)      |
| Unrealized gain on purchased power contracts | 7,406            | 5,978           |
| Fair value at end of the period              | <u>\$ 11,847</u> | <u>\$ 4,441</u> |

**Note 6 — Military Privatization**

Each of the Military Utility Privatization Subsidiaries have entered into a service contract(s) with the U.S. government to operate and maintain, as well as perform construction activities to renew and replace, the water and/or wastewater systems at a military base or bases. The amounts charged for these services are based upon the terms of the 50-year contract between the Military Utility Privatization Subsidiaries and the U.S. government. Under the terms of each of these agreements, the Military Utility Privatization Subsidiaries agree to operate and maintain the water and/or wastewater systems for: (i) a monthly net fixed-price for operation and maintenance, and (ii) an amount to cover renewal and replacement capital work. In addition, these contracts may also include firm, fixed-priced initial capital upgrade projects to upgrade the existing infrastructure. Contract modifications are also issued for other necessary capital upgrades to the existing infrastructure approved by the U.S. government.

Under the terms of each of these contracts, prices are subject to an economic price adjustment (“EPA”) provision, on an annual basis. Prices may also be equitably adjusted for changes in law and other circumstances. ASUS is permitted to file, and has filed, requests for equitable adjustment. Each of the contracts may be subject to termination, 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 a Military Utility Privatization Subsidiary.

ASUS has experienced delays in receiving EPAs as provided for under its 50-year contracts. Because of the delays, EPAs, when finally approved, are retroactive. During 2022, the U.S. government approved EPAs at eight of the bases served. In some cases, these EPAs included retroactive operation and maintenance management fees for prior periods. For the years ended December 31, 2022, 2021 and 2020, retroactive operation and maintenance management fees related to prior periods were immaterial.

**Note 7 — Earnings Per Share and Capital Stock**

In accordance with the accounting guidance for participating securities and earnings per share (“EPS”), Registrant uses the “two-class” method of computing EPS. The “two-class” method is an earnings allocation formula that determines EPS for each class of common stock and participating security. AWR has participating securities related to restricted stock units that earn dividend equivalents on an equal basis with AWR’s Common Shares that have been issued under AWR’s 2016 employee plans and the 2003 and 2013 directors’ plans. 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:<br>(in thousands, except per share amounts)           | For The Years Ended December 31, |           |           |
|--|----------------------------------|-----------|-----------|
|  | 2022                             | 2021      | 2020      |
| Net income   | \$ 78,396                        | \$ 94,347 | \$ 86,425 |
| Less: (a) Distributed earnings to common shareholders        | 56,356                           | 51,689    | 47,206    |
| Distributed earnings to participating securities             | 142                              | 134       | 158       |
| Undistributed earnings                                       | 21,898                           | 42,524    | 39,061    |
| (b) Undistributed earnings allocated to common shareholders  | 21,843                           | 42,414    | 38,930    |
| Undistributed earnings allocated to participating securities | 55                               | 110       | 131       |
| Total income available to common shareholders, basic (a)+(b) | \$ 78,199                        | \$ 94,103 | \$ 86,136 |
| Weighted average Common Shares outstanding, basic            | 36,955                           | 36,921    | 36,880    |
| Basic earnings per Common Share                              | \$ 2.12                          | \$ 2.55   | \$ 2.34   |

Diluted EPS is based upon the weighted average number of Common Shares, including both outstanding shares and shares potentially issuable in connection with restricted stock units granted under AWR’s 2016 employee plans, and the 2003 and 2013 directors’ plans, and net income. At December 31, 2022, there were also 96,988 restricted stock units outstanding, including performance shares awarded to officers of the Registrant.

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

| Diluted:<br>(in thousands, except per share amounts)                         | For The Years Ended December 31, |           |           |
|--|----------------------------------|-----------|-----------|
|  | 2022                             | 2021      | 2020      |
| Common shareholders earnings, basic  | \$ 78,199                        | \$ 94,103 | \$ 86,136 |
| Undistributed earnings for dilutive stock options and restricted stock units | 55                               | 110       | 131       |
| Total common shareholders earnings, diluted                                  | \$ 78,254                        | \$ 94,213 | \$ 86,267 |
| Weighted average Common Shares outstanding, basic                            | 36,955                           | 36,921    | 36,880    |
| Stock-based compensation (1)   | 84                               | 89        | 115       |
| Weighted average Common Shares outstanding, diluted                          | 37,039                           | 37,010    | 36,995    |
| Diluted earnings per Common Share  | \$ 2.11                          | \$ 2.55   | \$ 2.33   |

(1) In applying the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in the calculation of diluted EPS, 96,988 restricted stock units, including performance awards, at December 31, 2022 were deemed to be outstanding in accordance with accounting guidance on earnings per share.

During the years ended December 31, 2022, 2021 and 2020, AWR issued Common Shares totaling 25,956, 47,182 and 42,489, respectively, under AWR's employee stock incentive plans and the non-employee directors' plans. In addition, during the year 2020, AWR issued 1,800 Common Shares for approximately \$30,000 as a result of the exercise of stock options. No shares were issued during 2022 and 2021 as a result of the exercise of stock options. During 2022, 2021 and 2020, there were no cash proceeds received by AWR as a result of the exercise of stock options that were distributed to any of AWR's subsidiaries. AWR has not issued any Common Shares during 2022, 2021 and 2020 under AWR's Common Share Purchase and Dividend Reinvestment Plan ("DRP") and the 401(k) Plan. Shares reserved for the 401(k) Plan are in relation to AWR's matching contributions and investment by participants. As of December 31, 2022, there were 1,055,948 and 387,300 Common Shares authorized for issuance directly by AWR but unissued under the DRP and the 401(k) Plan, respectively.

During 2020, GSWC issued five Common Shares to AWR for \$60 million. The majority of the proceeds from these stock issuances were used by GSWC to pay down its intercompany borrowings from AWR. The CPUC requires GSWC to pay down all intercompany borrowings from AWR within a 24-month period. No shares were issued by GSWC during 2022 and 2021. However, in January 2023, the Board of Directors approved the issuance of one GSWC Common Share to AWR for \$10.0 million. Proceeds from the stock issuance along with the issuance of long-term debt were used to pay down GSWC's intercompany borrowings owed to AWR.

During the years ended December 31, 2022, 2021 and 2020, AWR and GSWC made payments to taxing authorities on employees' behalf for shares withheld related to net share settlements. These payments are included in the stock-based compensation caption of the statements of equity. GSWC's outstanding common shares are owned entirely by its parent, AWR. To the extent GSWC does not reimburse AWR for stock-based compensation awarded under various stock compensation plans, such amounts increase the value of GSWC's common shareholder's equity.

#### **Note 8 — Dividend Limitations**

GSWC is prohibited from paying dividends if, after giving effect to the dividend, its total indebtedness to capitalization ratio (as defined) would be more than 0.6667-to-1. Dividends in the amount of \$27.0 million, \$38.3 million and \$22.5 million were paid to AWR by GSWC during the years 2022, 2021 and 2020, respectively.

The ability of AWR, GSWC, BVESI and ASUS to pay dividends is also restricted by California law. Under California law, AWR, GSWC, BVESI and ASUS are each permitted to distribute dividends to its shareholders so long as the Board of Directors determines, in good faith, that either: (i) the value of the corporation's assets equals or exceeds the sum of its total liabilities immediately after the dividend, or (ii) its retained earnings equals or exceeds the amount of the distribution. Under the least restrictive of the California tests, approximately \$709.5 million was available to pay dividends to AWR's shareholders at December 31, 2022. Approximately \$643.9 million was available for GSWC to pay dividends to AWR at December 31, 2022.



**Note 9 — Bank Debts**

Registrant's bank debts consist of outstanding borrowings made under two separate credit facilities at AWR (parent) and BVESI.

**AWR Credit Facility, Liquidity and Financing Plans:**

AWR borrows under a credit facility and provides funds to GSWC and ASUS in support of their operations on terms that are similar to that of the credit facility. On April 22, 2022, AWR's credit facility was amended to increase the borrowing capacity from \$200.0 million to \$280.0 million. The amendment also changed the benchmark interest rate from the London Interbank Offered Rate ("LIBOR") to the Secured Overnight Financing Rate ("SOFR"). The change in benchmark rates has not had a material impact on its financing costs. AWR's credit agreement will expire in May 2023 and, therefore, the outstanding borrowings under the credit facility of \$255.5 million as of December 31, 2022 have been classified as a current liability on AWR's Consolidated Balance Sheet, thus creating a negative working-capital condition for AWR of \$245.2 million. As of March 1, 2023, AWR does not have sufficient liquidity or capital resources to repay its credit facility without extending its existing credit facility, entering into a new credit facility, or issuing new debt or equity.

Management plans to either renew and extend AWR's credit facility or to enter into a new credit facility prior to its expiration date, and is confident, given AWR's history in obtaining revolving credit facilities to meet its working-capital needs, that AWR will be able to do so with the needed borrowing capacities required to run its operations. In addition, AWR's plans included the issuance of long-term debt through GSWC during the fourth quarter of 2022, which it completed with the execution of a note purchase agreement in December 2022 for the issuance of unsecured private placement notes totaling \$130.0 million. In January 2023, GSWC through a delayed-draw feature of its note purchase agreement, issued the unsecured private placement notes and used the proceeds to pay off the majority of its outstanding borrowings with AWR at that time. AWR then used the proceeds from GSWC to pay off \$124.0 million of the outstanding borrowings under its credit facility thereby improving AWR's working-capital condition. Management believes that execution of its plan is probable based on Registrant's ability to generate consistent cash flows, its A+ credit ratings, its relationships with lenders, and its history of successfully raising debt necessary to fund its operations as recently evidenced by the issuance of long-term debt at GSWC. Accordingly, management has concluded that AWR will be able to satisfy its obligations, including those under its credit facility, for at least the next twelve months from the issuance date of these financial statements. However, AWR's ability to access the capital markets or to otherwise obtain sufficient financing may be affected by future conditions and, accordingly, no assurances can be made that AWR will be successful in implementing its plan.

Under AWR's credit facility, the aggregate effective amount that may be outstanding under letters of credit is \$25.0 million. AWR has obtained letters of credit for AWR and GSWC, in the aggregate amount of \$639,000 at fees of 0.65%. Letters of credit outstanding reduce the amount that may be borrowed under the revolving credit facility. AWR is not required to maintain any compensating balances. All of the letters of credit are issued pursuant to AWR's revolving credit facility.

Loans may be obtained under this credit facility at the option of AWR and bear interest at rates based on credit ratings and SOFR benchmark replacement rate margins. In June 2022, Standard and Poor's Global Ratings ("S&P") affirmed an A+ credit rating for both AWR and GSWC. S&P's debt ratings range from AAA (highest possible) to D (obligation is in default). In January 2023, Moody's Investors Service ("Moody's") affirmed its A2 rating with a stable outlook for GSWC.

**BVESI Credit Facility:**

BVESI has access to a separate \$35.0 million revolving credit facility without a parent guaranty, which was amended in December 2021 to reduce the interest rate and fees, as well as extend the maturity date by a year to July 1, 2024. Borrowings made under this facility support the electric segment's operations and capital expenditures. As of December 31, 2022, there was \$22.0 million outstanding borrowing under this credit facility. Under the terms of the credit agreement, BVESI has the option to increase the facility by an additional \$15.0 million, subject to lender approval. Interest rates under this facility are currently based on LIBOR. Effective July 1, 2023, all new borrowings under the credit agreement will be based on SOFR. BVESI does not believe the change from LIBOR to a new benchmark rate will have a material impact on its financing costs. BVESI's revolving credit facility is considered a short-term debt arrangement by the CPUC. BVESI has been authorized by the CPUC to borrow under this credit facility for a term of up to 24 months. Borrowings under this credit facility are, therefore, required to be fully paid off within a 24-month period. BVESI's next pay-off period for its credit facility ends in September 2024.

Registrant's borrowing activities (excluding letters of credit) for the years ended December 31, 2022 and 2021 were as follows:

| (in thousands, except percent)        | December 31,  |               |
|---------------------------------------|---------------|---------------|
|                                       | 2022          | 2021          |
| Balance Outstanding at December 31,   | \$ 277,500    | \$ 205,500    |
| Interest Rate at December 31,         | 5.07% ~ 5.89% | 0.78% ~ 1.61% |
| Average Amount Outstanding            | \$ 226,556    | \$ 165,167    |
| Weighted Average Annual Interest Rate | 2.55 %        | 1.05 %        |
| Maximum Amount Outstanding            | \$ 277,500    | \$ 205,500    |

The AWR revolving credit facility contains restrictions on prepayments, disposition of property, mergers, liens and negative pledges, indebtedness and guaranty obligations, transactions with affiliates, minimum interest coverage requirements, a maximum debt to capitalization ratio and a minimum debt rating. Pursuant to the credit agreement, AWR must maintain a minimum interest coverage ratio of 3.25 times interest expense, a maximum total funded debt ratio of 0.65 to 1.00 and a minimum Moody's Investor Service or S&P debt rating of Baa3 or BBB-, respectively. As of December 31, 2022, 2021 and 2020, AWR was in compliance with these requirements. As of December 31, 2022, AWR had an interest coverage ratio of 6.32 times interest expense, a debt ratio of 0.51 to 1.00 and a debt rating of A+ by S&P.

Pursuant to BVESI's credit facility agreement, BVESI must maintain a minimum interest coverage ratio of 4.5 times interest expense and a maximum consolidated total debt to consolidated total capitalization ratio of 0.65 to 1.00. As of December 31, 2022, 2021 and 2020, BVESI was in compliance with these requirements, with an actual interest coverage ratio of 14.4 times interest expense and a total funded debt ratio of 0.47 to 1.00 as of December 31, 2022. In addition, BVESI is required to have a current safety certification issued by the CPUC, which it currently has.

#### **Note 10 — Long-Term Debt**

Registrant's long-term debt consists of notes and debentures of GSWC and BVESI. Registrant summarizes its long-term debt in the Statements of Capitalization. GSWC and BVESI do not currently have any outstanding mortgages or other encumbrances on its properties.

On December 15, 2022, GSWC executed a note purchase agreement for the issuance of unsecured private placement notes totaling \$130.0 million. The note purchase agreement includes a delayed-draw feature that allows for the sale and purchase of the notes to occur on a business day on or prior to March 1, 2023. On January 13, 2023, GSWC requested the funds and issued (i) \$100.0 million aggregate principal amount of Series A Senior Notes at a coupon rate of 5.12% due January 31, 2033, and (ii) \$30.0 million aggregate principal amount of Series B Senior Notes at a coupon rate of 5.22% due January 31, 2038. GSWC used the proceeds to pay down intercompany borrowings with AWR as well as fund operations and capital expenditures for GSWC. Interest is payable semiannually on January 31 and July 31 of each year. The Series A and Series B notes are unsecured and rank equally with GSWC's unsecured and unsubordinated debt. GSWC may, at its option, redeem all or portions of the notes at any time upon written notice, subject to payment of a make-whole premium based on 50 basis points above the applicable treasury yield. The make-whole premiums and covenant requirements under these new notes are similar to the terms of all the other private placement notes issued by GSWC. Pursuant to the terms of each of these notes, GSWC must maintain a total indebtedness to capitalization ratio (as defined) of less than 0.6667-to-1 and a total indebtedness to earnings before income taxes, depreciation and amortization ("EBITDA") of less than 8-to-1. As of December 31, 2022, GSWC had a total indebtedness to capitalization ratio of 0.4568-to-1 and a total indebtedness to EBITDA of 4.2-to-1.

On April 28, 2022, BVESI completed the issuance of \$35.0 million in unsecured private-placement notes consisting of \$17.5 million at a coupon rate of 4.548% due April 28, 2032 and \$17.5 million at a coupon rate of 4.949% due April 28, 2037. BVESI used the proceeds from the notes to pay down all amounts under its revolving credit facility outstanding at the time of issuing the notes. Interest on these notes is payable semiannually, and the covenant requirements under these notes are similar to the terms of BVESI's revolving credit facility (Note 9).

On May 24, 2021, GSWC redeemed its 9.56% private placement notes in the amount of \$28.0 million, which pursuant to the note agreement included a redemption premium of 3.0% on par value, or \$840,000. GSWC recovers redemption premiums in its embedded cost of debt as filed in cost of capital proceedings where the cost savings from redeeming higher interest rate debt are passed on to customers. Accordingly, the redemption premium has been deferred as a regulatory asset. GSWC funded the redemption by borrowing from AWR parent. AWR, in turn, funded this borrowing from its revolving credit facility.

Registrant's annual maturities of all long-term debt at December 31, 2022 are as follows (in thousands):

|              |           |                |
|--------------|-----------|----------------|
| 2023         | \$        | 399            |
| 2024         |           | 419            |
| 2025         |           | 439            |
| 2026         |           | 457            |
| 2027         |           | 477            |
| Thereafter   |           | 448,182        |
| <b>Total</b> | <b>\$</b> | <b>450,373</b> |

#### **Note 11 — Taxes on Income**

Registrant records deferred income taxes for temporary differences pursuant to the accounting guidance that addresses items recognized for income tax purposes in a different period from when these items are reported in the financial statements. These items include differences in net asset basis (primarily related to differences in depreciation lives and methods, and differences in capitalization methods) and the treatment of certain regulatory balancing accounts, and construction contributions and advances. The accounting guidance for income taxes requires that rate-regulated enterprises record deferred income taxes and offsetting regulatory liabilities and assets for temporary differences where the rate regulator has prescribed flow-through treatment for rate-making purposes (Note 3). Deferred investment tax credits ("ITC") are amortized ratably to deferred tax expense over the remaining lives of the property that gave rise to the credits.

GSWC is included in both AWR's consolidated federal income tax and its combined California state franchise tax returns. The impact of California's unitary apportionment on the amount of AWR's California income tax liability is a function of both the profitability of AWR's non-California activities and the proportion of AWR's California sales to its total sales. GSWC's income tax expense is computed as if GSWC were autonomous and separately files its income tax returns, which is consistent with the method adopted by the CPUC in setting GSWC's customer rates.

On November 15, 2021, the Infrastructure Investment and Jobs Act ("IIJA") was signed into federal law. Among its significant provisions, IIJA restored, on a retroactive basis to January 1, 2021, the provision that treats contributions in aid of construction provided to regulated water utilities as non-taxable, which TCJA had repealed. Further, IIJA broadens the provision to also treat government grants for water infrastructure as non-taxable.

On August 16, 2022, the Inflation Reduction Act of 2022 ("IRA") was signed into federal law. IRA, among other things, imposes a nondeductible 1% excise tax after December 31, 2022 on the fair market value of certain stock that is "repurchased" by a publicly traded U.S. corporation or acquired by certain of its subsidiaries. The taxable amount is reduced by the fair market value of certain issuances of stock throughout the year. Registrant does not expect this tax law change to have a material impact on its consolidated financial position; however, it will continue to evaluate its impact as further information becomes available. If average annual adjusted financial statement income exceeds \$1 billion over a 3-taxable-year period, IRA also imposes a 15% corporate alternative minimum tax on adjusted financial statement income for taxable years beginning after December 31, 2022. Registrant does not expect to incur this tax in the foreseeable future.

The significant components of the deferred tax assets and liabilities as reflected in the balance sheets at December 31, 2022 and 2021 are:

| (dollars in thousands)                               | AWR                 |                     | GSWC                |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | December 31,        |                     | December 31,        |                     |
|  | 2022                | 2021                | 2022                | 2021                |
| <b>Deferred tax assets:</b>                          |                     |                     |                     |                     |
| Regulatory-liability-related (1)                     | \$ 31,330           | \$ 32,220           | \$ 29,623           | \$ 30,410           |
| Contributions and advances                           | 6,544               | 6,850               | 6,896               | 7,227               |
| Other  | 7,424               | 5,324               | 7,874               | 5,689               |
| <b>Total deferred tax assets</b>                     | <b>\$ 45,298</b>    | <b>\$ 44,394</b>    | <b>\$ 44,393</b>    | <b>\$ 43,326</b>    |
| <b>Deferred tax liabilities:</b>                     |                     |                     |                     |                     |
| Fixed assets   | \$ (155,955)        | \$ (150,290)        | \$ (150,133)        | \$ (144,719)        |
| Regulatory-asset-related: depreciation and other     | (30,226)            | (25,914)            | (28,489)            | (24,858)            |
| Balancing and memorandum accounts (non-flow-through) | (8,794)             | (8,480)             | (4,559)             | (6,063)             |
| <b>Total deferred tax liabilities</b>                | <b>(194,975)</b>    | <b>(184,684)</b>    | <b>(183,181)</b>    | <b>(175,640)</b>    |
| <b>Accumulated deferred income taxes, net</b>        | <b>\$ (149,677)</b> | <b>\$ (140,290)</b> | <b>\$ (138,788)</b> | <b>\$ (132,314)</b> |

(1) Primarily represents the gross-up portion of the deferred income tax (on the excess-deferred-tax regulatory liability) brought about by TCJA's reduction in the federal income tax rate.

The current and deferred components of income tax expense are as follows:

| (dollars in thousands)                      | AWR                     |                  |                  |
|---|-------------------------|------------------|------------------|
|   | Year Ended December 31, |                  |                  |
|   | 2022                    | 2021             | 2020             |
| <b>Current</b>                              |                         |                  |                  |
| Federal                                     | \$ 14,845               | \$ 19,592        | \$ 19,240        |
| State                                       | 6,016                   | 7,270            | 6,714            |
| <b>Total current tax expense</b>            | <b>\$ 20,861</b>        | <b>\$ 26,862</b> | <b>\$ 25,954</b> |
| <b>Deferred</b>                             |                         |                  |                  |
| Federal                                     | \$ 2,991                | \$ 2,802         | \$ 1,814         |
| State                                       | (188)                   | 759              | 429              |
| <b>Total deferred tax (benefit) expense</b> | <b>2,803</b>            | <b>3,561</b>     | <b>2,243</b>     |
| <b>Total income tax expense</b>             | <b>\$ 23,664</b>        | <b>\$ 30,423</b> | <b>\$ 28,197</b> |

| (dollars in thousands)                      | GSWC                    |                  |                  |
|---|-------------------------|------------------|------------------|
|   | Year Ended December 31, |                  |                  |
|   | 2022                    | 2021             | 2020             |
| <b>Current</b>                              |                         |                  |                  |
| Federal                                     | \$ 10,582               | \$ 13,698        | \$ 14,674        |
| State                                       | 4,909                   | 6,089            | 5,849            |
| <b>Total current tax expense</b>            | <b>\$ 15,491</b>        | <b>\$ 19,787</b> | <b>\$ 20,523</b> |
| <b>Deferred</b>                             |                         |                  |                  |
| Federal                                     | \$ 1,507                | \$ 2,251         | \$ 949           |
| State                                       | (652)                   | 57               | 232              |
| <b>Total deferred tax (benefit) expense</b> | <b>855</b>              | <b>2,308</b>     | <b>1,181</b>     |
| <b>Total income tax expense</b>             | <b>\$ 16,346</b>        | <b>\$ 22,095</b> | <b>\$ 21,704</b> |

The differences between AWR's and GSWC's effective tax rates and the federal statutory rate are mostly attributable to (i) state taxes; (ii) permanent differences including the excess tax benefits from share-based payments, which are reflected in the income statements and reduced income tax expense; (iii) continuing amortization of the excess deferred income tax liability, and (iv) differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (principally from plant, rate-case, and compensation expenses). As a regulated utility, GSWC treats

certain temporary differences as flow-through in computing its income tax expense consistent with the income tax method used in its CPUC-jurisdictional ratemaking. Flow-through items either increase or decrease tax expense and thus impact the ETR.

The reconciliations of the effective tax rates to the federal statutory rate are as follows:

| (dollars in thousands)                           | AWR                     |            |            |
|--|-------------------------|------------|------------|
|  | Year Ended December 31, |            |            |
|  | 2022                    | 2021       | 2020       |
| Federal taxes on pretax income at statutory rate | \$ 21,433               | \$ 26,202  | \$ 24,071  |
| Increase (decrease) in taxes resulting from:     |                         |            |            |
| State income tax, net of federal benefit         | 4,335                   | 6,425      | 5,764      |
| Excess deferred tax amortization                 | (1,311)                 | (1,356)    | (1,550)    |
| Flow-through on fixed assets                     | 1,076                   | 1,069      | 1,056      |
| Flow-through on removal costs                    | (1,802)                 | (1,962)    | (1,031)    |
| Investment tax credit                            | (71)                    | (71)       | (71)       |
| Other – net                                      | 4                       | 116        | (42)       |
| Total income tax expense from operations         | \$ 23,664               | \$ 30,423  | \$ 28,197  |
| Pretax income from operations                    | \$ 102,060              | \$ 124,770 | \$ 114,622 |
| Effective income tax rate                        | 23.2 %                  | 24.4 %     | 24.6 %     |

| (dollars in thousands)                           | GSWC                    |           |           |
|--|-------------------------|-----------|-----------|
|  | Year Ended December 31, |           |           |
|  | 2022                    | 2021      | 2020      |
| Federal taxes on pretax income at statutory rate | \$ 14,724               | \$ 19,175 | \$ 18,202 |
| Increase (decrease) in taxes resulting from:     |                         |           |           |
| State income tax, net of federal benefit         | 3,119                   | 4,923     | 4,920     |
| Excess deferred tax amortization                 | (1,130)                 | (1,184)   | (1,477)   |
| Flow-through on fixed assets                     | 1,010                   | 1,008     | 1,042     |
| Flow-through on removal costs                    | (1,715)                 | (1,954)   | (1,026)   |
| Investment tax credit                            | (71)                    | (71)      | (71)      |
| Other – net                                      | 409                     | 198       | 114       |
| Total income tax expense from operations         | \$ 16,346               | \$ 22,095 | \$ 21,704 |
| Pretax income from operations                    | \$ 70,116               | \$ 91,310 | \$ 86,675 |
| Effective income tax rate                        | 23.3 %                  | 24.2 %    | 25.0 %    |

AWR and GSWC had no unrecognized tax benefits at December 31, 2022, 2021 and 2020.

Registrant's policy is to classify interest on income tax over/underpayments in interest income/expense and penalties in "other" expenses. Registrant did not have any material interest receivables/payables from/to taxing authorities as of December 31, 2022 and 2021, nor did it recognize any material interest income/expense or accrue any material tax-related penalties during the years ended December 31, 2022, 2021 and 2020.

Registrant files federal, California and various other state income tax returns. AWR's 2019–2021 tax years remain subject to examination by the Internal Revenue Service. AWR filed refund claims with the California Franchise Tax Board ("FTB") for the 2005 through 2008 and 2017 tax years in connection with the matters reflected on prior federal refund claims along with other state tax items. The FTB continues to review the claims, and the 2009, 2010, and 2017–2021 tax years remain subject to examination by the FTB.

**Note 12 — Employee Benefit Plans*****Pension and Post-Retirement Medical Plans:***

Registrant maintains a defined benefit pension plan (the “Pension Plan”) that provides eligible employees (those aged 21 and older, hired before January 1, 2011) monthly benefits upon retirement based on average salaries and length of service. The eligibility requirement to begin receiving these benefits is 5 years of vested service. The normal retirement benefit is equal to 2% of the 5 highest consecutive years’ average earnings multiplied by the number of years of credited service, up to a maximum of 40, reduced by a percentage of primary Social Security benefits. There is also an early retirement option. Annual contributions are made to the Pension Plan, which comply with the funding requirements of the Employee Retirement Income Security Act (“ERISA”). At December 31, 2022, Registrant had 919 participants in the Pension Plan.

Employees hired or rehired after December 31, 2010 are eligible to participate in a defined contribution plan. Registrant’s existing 401(k) Investment Incentive Program was amended to include this defined contribution plan. Under this plan, Registrant provides a contribution ranging from 3% to 5.25% of eligible pay each pay period into investment vehicles offered by the plan’s trustee. Full vesting under this plan occurs upon 3 years of service. Employees hired before January 1, 2011 continue to participate in and accrue benefits under the terms of the Pension Plan.

Registrant also provides post-retirement medical benefits for all active employees hired before February of 1995 through a medical insurance plan. Eligible employees, who retire prior to age 65, and/or their spouses, are able to retain the benefits under the plan for active employees until reaching age 65. Eligible employees upon reaching age 65, and those eligible employees retiring at or after age 65, and/or their spouses, receive coverage through a Medicare supplement insurance policy paid for by Registrant subject to an annual cap limit. Registrant’s post-retirement medical plan does not provide prescription drug benefits to Medicare-eligible employees and is not affected by the Medicare Prescription Drug Improvement and Modernization Act of 2003.

In accordance with the accounting guidance for the effects of certain types of regulation, Registrant has established a regulatory asset for its underfunded position in its pension and post-retirement medical plans that is expected to be recovered through rates in future periods. The changes in actuarial gains and losses, prior service costs and transition assets or obligations pertaining to the regulatory asset are recognized as an adjustment to the regulatory asset account as these amounts are recognized as components of net periodic pension cost each year and in the rate-making process.

The following table sets forth the Pension Plan’s and post-retirement medical plan’s funded status and amounts recognized in Registrant’s balance sheets and the components of net pension cost and accrued liability at December 31, 2022 and 2021:

| (dollars in thousands)                            | Pension Benefits |             | Post-Retirement Medical Benefits |           |
|---|------------------|-------------|----------------------------------|-----------|
|   | 2022             | 2021        | 2022                             | 2021      |
| <b>Change in Projected Benefit Obligation:</b>    |                  |             |                                  |           |
| Projected benefit obligation at beginning of year | \$ 259,751       | \$ 272,786  | \$ 2,686                         | \$ 5,906  |
| Service cost                                      | 5,644            | 6,316       | 129                              | 149       |
| Interest cost                                     | 7,401            | 6,833       | 60                               | 110       |
| Actuarial (gain) loss                             | (72,710)         | (17,682)    | (570)                            | (3,165)   |
| Benefits/expenses paid                            | (9,408)          | (8,502)     | (291)                            | (314)     |
| Projected benefit obligation at end of year       | \$ 190,678       | \$ 259,751  | \$ 2,014                         | \$ 2,686  |
| <b>Changes in Plan Assets:</b>                    |                  |             |                                  |           |
| Fair value of plan assets at beginning of year    | \$ 233,524       | \$ 213,147  | \$ 13,773                        | \$ 12,313 |
| Actual return on plan assets                      | (40,299)         | 25,390      | (2,242)                          | 1,773     |
| Employer contributions                            | 3,089            | 3,489       | 263                              | 242       |
| Benefits/expenses paid                            | (9,408)          | (8,502)     | (554)                            | (555)     |
| Fair value of plan assets at end of year          | \$ 186,906       | \$ 233,524  | \$ 11,240                        | \$ 13,773 |
| <b>Funded Status:</b>                             |                  |             |                                  |           |
| Net amount recognized as accrued pension cost     | \$ (3,772)       | \$ (26,227) | \$ 9,226                         | \$ 11,087 |

The decrease in the underfunded status of the pension was due to an increase in the discount rate, which increased from 2.89% as of December 31, 2021 to 5.41% as of December 31, 2022.

| (dollars in thousands)                                     | Pension Benefits |             | Post-Retirement Medical Benefits |             |
|--|------------------|-------------|----------------------------------|-------------|
|  | 2022             | 2021        | 2022                             | 2021        |
| <b>Amounts recognized on the balance sheets:</b>           |                  |             |                                  |             |
| Non-current assets   | \$ —             | \$ —        | \$ 9,226                         | \$ 11,087   |
| Current liabilities  | —                | —           | —                                | —           |
| Non-current liabilities                                    | (3,772)          | (26,227)    | —                                | —           |
| Net amount recognized                                      | \$ (3,772)       | \$ (26,227) | \$ 9,226                         | \$ 11,087   |
| <b>Amounts recognized in regulatory assets consist of:</b> |                  |             |                                  |             |
| Prior service cost (credit)                                | \$ 1,889         | \$ 2,323    | \$ —                             | \$ —        |
| Net loss (gain)  | 4,123            | 23,368      | (5,846)                          | (9,839)     |
| Regulatory assets (liabilities)                            | 6,012            | 25,691      | (5,846)                          | (9,839)     |
| Unfunded accrued pension cost                              | (2,240)          | 536         | (3,380)                          | (1,248)     |
| Net liability (asset) recognized                           | \$ 3,772         | \$ 26,227   | \$ (9,226)                       | \$ (11,087) |

**Changes in plan assets and benefit obligations recognized in regulatory assets (liabilities):**

|  |             |             |            |            |
|--|-------------|-------------|------------|------------|
| Regulatory asset (liability) at beginning of year                              | \$ 25,691   | \$ 60,473   | \$ (9,839) | \$ (6,855) |
| Net (loss) gain  | (19,245)    | (30,531)    | 2,259      | (4,401)    |
| New prior service cost   | —           | —           | —          | —          |
| Amortization of prior service (cost) credit                                    | (434)       | (434)       | —          | —          |
| Amortization of net gain (loss)  | —           | (3,817)     | 1,734      | 1,417      |
| Total change in regulatory asset (liability)                                   | (19,679)    | (34,782)    | 3,993      | (2,984)    |
| Regulatory asset (liability) at end of year                                    | \$ 6,012    | \$ 25,691   | \$ (5,846) | \$ (9,839) |
| Net periodic pension costs   | \$ 313      | \$ 4,859    | \$ (2,132) | \$ (1,695) |
| Change in regulatory asset (liability)   | (19,679)    | (34,782)    | 3,993      | (2,984)    |
| Total recognized in net periodic pension cost and regulatory asset (liability) | \$ (19,366) | \$ (29,923) | \$ 1,861   | \$ (4,679) |

**Additional year-end information for plans with an accumulated benefit obligation in excess of plan assets:**

|                                |            |            |           |           |
|--------------------------------|------------|------------|-----------|-----------|
| Projected benefit obligation   | \$ 190,678 | \$ 259,751 | \$ 2,014  | \$ 2,686  |
| Accumulated benefit obligation | \$ 181,376 | \$ 243,412 | N/A       | N/A       |
| Fair value of plan assets      | \$ 186,906 | \$ 233,524 | \$ 11,240 | \$ 13,773 |

**Weighted-average assumptions used to determine benefit obligations at December 31:**

|                               |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|
| Discount rate                 | 5.41 % | 2.89 % | 5.34 % | 2.46 % |
| Rate of compensation increase | *      | *      | N/A    | N/A    |

- Age-graded ranging from 3.0% to 8.0%.

The components of net periodic pension and post-retirement benefits cost, before allocation to the overhead pool, for 2022, 2021 and 2020 are as follows:

| (dollars in thousands, except percent)                                      | Pension Benefits |          |          | Post-Retirement Medical Benefits |            |            |
|---|------------------|----------|----------|----------------------------------|------------|------------|
|   | 2022             | 2021     | 2020     | 2022                             | 2021       | 2020       |
| <b>Components of Net Periodic Benefits Cost:</b>                            |                  |          |          |                                  |            |            |
| Service cost  | \$ 5,644         | \$ 6,316 | \$ 5,558 | \$ 129                           | \$ 149     | \$ 171     |
| Interest cost   | 7,401            | 6,833    | 7,880    | 60                               | 110        | 208        |
| Expected return on plan assets  | (13,166)         | (12,541) | (11,798) | (587)                            | (537)      | (510)      |
| Amortization of prior service cost (credit)                                 | 434              | 434      | 435      | —                                | —          | —          |
| Amortization of actuarial (gain) loss                                       | —                | 3,817    | 1,935    | (1,734)                          | (1,417)    | (977)      |
| Net periodic pension cost under accounting standards                        | \$ 313           | \$ 4,859 | \$ 4,010 | \$ (2,132)                       | \$ (1,695) | \$ (1,108) |
| Regulatory adjustment   | —                | (1,277)  | (483)    | —                                | —          | —          |
| Total expense recognized, before surcharges and allocation to overhead pool | \$ 313           | \$ 3,582 | \$ 3,527 | \$ (2,132)                       | \$ (1,695) | \$ (1,108) |

**Weighted-average assumptions used to determine net periodic cost:**

|  |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|
| Discount rate                            | 2.89 % | 2.55 % | 3.43 % | 2.46 % | 2.20 % | 3.12 % |
| Expected long-term return on plan assets | 5.75 % | 6.00 % | 6.25 % | *      | *      | *      |
| Rate of compensation increase            | **     | **     | **     | N/A    | N/A    | N/A    |

\*5.50% for union plan and 3.9% for non-union (net of income taxes) in 2022, 5.75% for union plan and 4.0% for non-union (net of income taxes) in 2021, and 6.0% for union plan and 4.2% for non-union (net of income taxes) in 2020.

\*\* Age-graded ranging from 3.0% to 8.0%.

**Regulatory Adjustment:**

The CPUC authorized GSWC and BVESI to track differences between the forecasted annual pension expenses adopted in rates and the actual annual expenses to be recorded in accordance with the accounting guidance for pension costs in a two-way pension balancing account. During the year ended December 31, 2022, GSWC's actual pension expense was lower than the amounts included in water customer rates by \$1.5 million. During the years ended December 31, 2021 and 2020, GSWC's actual expense was higher than the amounts included in customer rates by \$1.3 million and \$483,000, respectively. The cumulative amount recorded in GSWC's two-way pension balancing account is included within the pensions and other post-retirement obligations regulatory asset discussed in Note 3. During the years ended December 31, 2022, 2021 and 2020, BVESI's actual expense was lower than the amounts included in electric rates by \$490,000, \$246,000 and \$200,000, respectively. These over-collections were recorded as a reduction to electric revenues.

**Plan Funded Status:**

The Pension Plan was underfunded at December 31, 2022 and 2021. Registrant's market related value of plan assets is equal to the fair value of plan assets. Past volatile market conditions have affected the value of GSWC's trust established to fund its future long-term pension benefits. These benefit plan assets and related obligations are measured annually using a December 31 measurement date. Changes in the Pension Plan's funded status will affect the assets and liabilities recorded on the balance sheet in accordance with accounting guidance on employers' accounting for defined benefit pension and other post-retirement plans. Due to Registrant's regulatory recovery treatment, the recognition of the underfunded status for the Pension Plan has been offset by a regulatory asset pursuant to guidance on the accounting for the effects of certain types of regulation.

**Plan Assets:**

The assets of the pension and post-retirement medical plans are managed by a third party trustee. The investment policy allocation of the assets in the trust was approved by Registrant's Administrative Committee (the "Committee") for the pension and post-retirement medical funds, which has oversight responsibility for all retirement plans. The primary objectives underlying the investment of the pension and post-retirement plan assets are: (i) attempt to maintain a fully funded status with a cushion for unexpected developments, possible future increases in expense levels and/or a reduction in the expected return on investments; (ii) seek to earn long-term returns that compare favorably to appropriate market indexes, peer group universes and



the policy asset allocation index; (iii) seek to provide sufficient liquidity to pay current benefits and expenses; (iv) attempt to limit risk exposure through prudent diversification; and (v) seek to limit costs of administering and managing the plans.

The Committee recognizes that risk and volatility are present to some degree with all types of investments. High levels of risk may be avoided through diversification by asset class, style of each investment manager and sector and industry limits. Investment managers are retained to manage a pool of assets and allocate funds in order to achieve an appropriate, diversified and balanced asset mix. The Committee's strategy balances the requirement to maximize returns using potentially higher-return generating assets, such as equity securities, with the need to control the risk of its benefit obligations with less volatile assets, such as fixed-income securities.

The Committee approves the target asset allocations. Registrant's pension and post-retirement plan weighted-average asset allocations at December 31, 2022 and 2021, by asset category are as follows:

| Asset Category                   | Pension Benefits |       | Post-Retirement Medical Benefits |       |
|----------------------------------|------------------|-------|----------------------------------|-------|
|                                  | 2022             | 2021  | 2022                             | 2021  |
| <b>Actual Asset Allocations:</b> |                  |       |                                  |       |
| Equity securities                | 56 %             | 56 %  | 59 %                             | 60 %  |
| Debt securities                  | 39 %             | 38 %  | 39 %                             | 39 %  |
| Real Estate Funds                | 5 %              | 6 %   | — %                              | — %   |
| Cash equivalents                 | — %              | — %   | 2 %                              | 1 %   |
| Total                            | 100 %            | 100 % | 100 %                            | 100 % |

Equity securities did not include AWR's Common Shares as of December 31, 2022 and 2021.

| Target Asset Allocations: | Pension Benefits | Post-retirement Medical Benefits |
|---------------------------|------------------|----------------------------------|
| Equity securities         | 60 %             | 60 %                             |
| Debt securities           | 40 %             | 40 %                             |
| Total                     | 100 %            | 100 %                            |

The Pension Plan assets are in collective trust funds managed by a management firm appointed by the Committee. The fair value of these collective trust funds is measured using net asset value per share. In accordance with ASU 2015-07 *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalents)*, the fair value of the collective trust funds is not categorized in the fair value hierarchy as of December 31, 2022 and 2021.

The following tables set forth the fair value, measured by net asset value, of the pension investment assets as of December 31, 2022 and 2021:

| (dollars in thousands)    | Net Asset Value as of December 31, 2022 |                      |                      |                          |
|---------------------------|---|----------------------|----------------------|--------------------------|
|                           | Fair Value                              | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Cash equivalents          | \$ 801                                  | —                    | N/A                  | N/A                      |
| Fixed income fund         | 73,863                                  | —                    | Daily                | Daily                    |
| <b>Equity securities:</b> |   |                      |                      |                          |
| U.S. small/mid cap funds  | 17,136                                  | —                    | Daily                | Daily                    |
| U.S. large cap funds      | 44,572                                  | —                    | Daily                | Daily                    |
| International funds       | 42,239                                  | —                    | Daily                | Daily                    |
| Total equity funds        | 103,947                                 | —                    |                      |                          |
| Real estate funds         | 8,295                                   | —                    | Daily                | Daily                    |
| Total                     | \$ 186,906                              | —                    |                      |                          |

| (dollars in thousands)    | Net Asset Value as of December 31, 2021 |                      |                      |                          |
|---------------------------|---|----------------------|----------------------|--------------------------|
|                           | Fair Value                              | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Cash equivalents          | \$ 637                                  | —                    | N/A                  | N/A                      |
| Fixed income fund         | 87,760                                  | —                    | Daily                | Daily                    |
| <b>Equity securities:</b> |   |                      |                      |                          |
| U.S. small/mid cap funds  | 22,143                                  | —                    | Daily                | Daily                    |
| U.S. large cap funds      | 58,451                                  | —                    | Daily                | Daily                    |
| International funds       | 50,961                                  | —                    | Daily                | Daily                    |
| Total equity funds        | 131,555                                 |                      |                      |                          |
| Real estate funds         | 13,572                                  | —                    | Daily                | Daily                    |
| Total                     | \$ 233,524                              | —                    |                      |                          |

The collective trust funds may be invested or redeemed daily, and generally do not have any significant restrictions to redeem the investments.

As previously discussed in Note 1, the accounting guidance for fair value measurements establishes a framework for measuring fair value and requires fair value measurements to be classified and disclosed in one of three levels. As required by the accounting guidance, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. All equity investments in the post-retirement medical plan are Level 1 investments in mutual funds. The fixed income category includes corporate bonds and notes. The majority of fixed income investments range in maturities from less than 1 to 20 years. The fair values of these investments are based on quoted market prices in active markets.

The following tables set forth by level, within the fair value hierarchy, the post-retirement plan's investment assets measured at fair value as of December 31, 2022 and 2021:

| (dollars in thousands)                            | Fair Value as of December 31, 2022 |         |         |           |
|---|------------------------------------|---------|---------|-----------|
|   | Level 1                            | Level 2 | Level 3 | Total     |
| <b>Fair Value of Post-Retirement Plan Assets:</b> |                                    |         |         |           |
| Cash equivalents                                  | \$ 215                             | —       | —       | \$ 215    |
| Fixed income                                      | 4,380                              | —       | —       | 4,380     |
| U.S. equity securities                            | 6,645                              | —       | —       | 6,645     |
| Total investments measured at fair value          | \$ 11,240                          | —       | —       | \$ 11,240 |

| (dollars in thousands)                            | Fair Value as of December 31, 2021 |         |         |           |
|---|------------------------------------|---------|---------|-----------|
|   | Level 1                            | Level 2 | Level 3 | Total     |
| <b>Fair Value of Post-Retirement Plan Assets:</b> |                                    |         |         |           |
| Cash equivalents                                  | \$ 92                              | —       | —       | \$ 92     |
| Fixed income                                      | 5,409                              | —       | —       | 5,409     |
| U.S. equity securities                            | 8,272                              | —       | —       | 8,272     |
| Total investments measured at fair value          | \$ 13,773                          | —       | —       | \$ 13,773 |

#### Plan Contributions:

During 2022, Registrant contributed \$3.1 million to its pension plan and did not make a contribution to the post-retirement medical plan. Registrant expects to contribute approximately \$2.8 million to its pension plan in 2023. Registrant's policy is to fund the plans annually at a level which is deductible for income tax purposes and is consistent with amounts recovered in customer rates while also complying with ERISA's funding requirements.

**Benefit Payments:**

Estimated future benefit payments at December 31, 2022 are as follows (in thousands):

|              | <b>Pension Benefits</b> | <b>Post-Retirement<br/>Medical Benefits</b> |
|--------------|-------------------------|---|
| 2023         | \$ 9,764                | \$ 313                                      |
| 2024         | 10,505                  | 284   |
| 2025         | 10,986                  | 272   |
| 2026         | 11,429                  | 257   |
| 2027         | 11,927                  | 228   |
| Thereafter   | 67,205                  | 747   |
| <b>Total</b> | <b>\$ 121,816</b>       | <b>\$ 2,101</b>                             |

**Assumptions:**

Certain actuarial assumptions, such as the discount rate, long-term rate of return on plan assets, mortality, and the healthcare cost trend rate have a significant effect on the amounts reported for net periodic benefit cost as well as the related benefit obligation amounts.

**Discount Rate** — The assumed discount rate for pension and post-retirement medical plans reflects the market rates for high-quality corporate bonds currently available. Registrant's discount rates were determined by considering the average of pension yield curves constructed of a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

**Expected Long-Term Rate of Return on Assets** — The long-term rate of return on plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income and other investments. To develop the expected long-term rate of return on assets assumption for the pension plan, Registrant considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. Registrant's policy is to fund the medical benefit trusts based on actuarially determined amounts as allowed in rates approved by the CPUC. Registrant has invested the funds in the post-retirement trusts that are intended to achieve a desired return and minimize amounts necessary to recover through rates. The mix is expected to provide for a return on assets similar to the Pension Plan and to achieve Registrant's targeted allocation. This resulted in the selection of the 5.50% long-term rate of return on assets assumption for the union plan and 3.9% (net of income taxes) for the non-union plan portion of the post-retirement plan.

**Mortality** — Mortality assumptions are a critical component of benefit obligation amounts and a key factor in determining the expected length of time for annuity payments. Registrant uses the latest mortality tables published by the Society of Actuaries. Accordingly, the benefit obligation amounts as of December 31, 2022 and 2021 have incorporated recent updates to the mortality tables.

**Healthcare Cost Trend Rate** — The assumed health care cost trend rate for 2023 starts at 5.6% grading down to 4.0% in 2046 for those under age 65, and at 5.3% grading down to 4.0% in 2046 for those 65 and over. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.

**Supplemental Executive Retirement Plan:**

Registrant has a supplemental executive retirement plan ("SERP") that is intended to restore retirement benefits to certain key employees and officers of Registrant that are limited by Sections 415 and 401(a)(17) of the Internal Revenue Code of 1986, as amended. The Board of Directors approved the establishment of a Rabbi Trust created for the SERP. Assets in a Rabbi Trust can be subject to the claims of creditors; therefore, they are not considered as an asset for purposes of computing the SERP's funded status. As of December 31, 2022, the balance in the Rabbi Trust totaled \$27.5 million and is included in Registrant's other property and investments.

All equity investments in the Rabbi Trust are Level 1 investments in mutual funds. The fixed income category includes corporate bonds and notes. The fair values of these investments are based on quoted market prices in active markets.

The following tables set forth by level, within the fair value hierarchy, the Rabbi Trust investment assets measured at fair value as of December 31, 2022 and 2021:

| (dollars in thousands)                           | Fair Value as of December 31, 2022 |         |         |           |
|--|------------------------------------|---------|---------|-----------|
|  | Level 1                            | Level 2 | Level 3 | Total     |
| <b>Fair Value of Assets held in Rabbi Trust:</b> |                                    |         |         |           |
| Cash equivalents                                 | \$ 9                               | —       | —       | \$ 9      |
| Fixed income securities                          | 10,962                             | —       | —       | 10,962    |
| Equity securities                                | 16,560                             | —       | —       | 16,560    |
| Total investments measured at fair value         | \$ 27,531                          | —       | —       | \$ 27,531 |

| (dollars in thousands)                           | Fair Value as of December 31, 2021 |         |         |           |
|--|------------------------------------|---------|---------|-----------|
|  | Level 1                            | Level 2 | Level 3 | Total     |
| <b>Fair Value of Assets held in Rabbi Trust:</b> |                                    |         |         |           |
| Cash equivalents                                 | \$ 8                               | —       | —       | \$ 8      |
| Fixed income securities                          | 12,442                             | —       | —       | 12,442    |
| Equity securities                                | 19,018                             | —       | —       | 19,018    |
| Total investments measured at fair value         | \$ 31,468                          | —       | —       | \$ 31,468 |

The following provides a reconciliation of benefit obligations, funded status of the SERP, as well as a summary of significant estimates at December 31, 2022 and 2021:

| (dollars in thousands)                                 | 2022        | 2021        |
|--|-------------|-------------|
| <b>Change in Benefit Obligation:</b>                   |             |             |
| Benefit obligation at beginning of year                | \$ 36,089   | \$ 36,602   |
| Service cost   | 1,191       | 1,392       |
| Interest cost  | 1,022       | 915         |
| Actuarial (gain) loss                                  | (6,522)     | (2,213)     |
| Benefits paid  | (973)       | (607)       |
| Benefit obligation at end of year                      | \$ 30,807   | \$ 36,089   |
| <b>Changes in Plan Assets:</b>                         |             |             |
| Fair value of plan assets at beginning and end of year | —           | —           |
| <b>Funded Status:</b>                                  |             |             |
| Net amount recognized as accrued cost                  | \$ (30,807) | \$ (36,089) |

| (in thousands)  | 2022               | 2021               |
|---|--------------------|--------------------|
| <b>Amounts recognized on the balance sheets:</b>  |                    |                    |
| Current liabilities   | \$ (942)           | \$ (949)           |
| Non-current liabilities   | (29,865)           | (35,140)           |
| Net amount recognized   | <u>\$ (30,807)</u> | <u>\$ (36,089)</u> |
| <b>Amounts recognized in regulatory assets consist of:</b>  |                    |                    |
| Prior service cost  | \$ —               | \$ —               |
| Net loss  | 1,995              | 9,097              |
| Regulatory assets   | 1,995              | 9,097              |
| Unfunded accrued cost   | 28,812             | 26,992             |
| Net liability recognized  | <u>\$ 30,807</u>   | <u>\$ 36,089</u>   |
| <b>Changes in plan assets and benefit obligations recognized in regulatory assets consist of:</b>                 |                    |                    |
| Regulatory asset at beginning of year   | \$ 9,097           | \$ 12,988          |
| Net loss  | (6,522)            | (2,213)            |
| Amortization of prior service credit  | —                  | —                  |
| Amortization of net loss  | (580)              | (1,678)            |
| Total change in regulatory asset  | <u>(7,102)</u>     | <u>(3,891)</u>     |
| Regulatory asset at end of year   | <u>\$ 1,995</u>    | <u>\$ 9,097</u>    |
| Net periodic pension cost   | \$ 2,793           | \$ 3,985           |
| Change in regulatory asset  | (7,102)            | (3,891)            |
| Total recognized in net periodic pension and regulatory asset   | <u>\$ (4,309)</u>  | <u>\$ 94</u>       |
| <b>Additional year-end information for plans with an accumulated benefit obligation in excess of plan assets:</b> |                    |                    |
| Projected benefit obligation  | \$ 30,807          | \$ 36,089          |
| Accumulated benefit obligation  | 28,157             | 31,835             |
| Fair value of plan assets   | —                  | —                  |
| <b>Weighted-average assumptions used to determine benefit obligations:</b>  |                    |                    |
| Discount rate   | 5.42 %             | 2.87 %             |
| Rate of compensation increase   | *                  | *                  |

\* Age graded from 4.5% to 4.0% per year.

The components of SERP expense, before allocation to the overhead pool, for 2022, 2021 and 2020 are as follows:

| (dollars in thousands, except percent)                                   | 2022            | 2021            | 2020            |
|--|-----------------|-----------------|-----------------|
| <b>Components of Net Periodic Benefits Cost:</b>                         |                 |                 |                 |
| Service cost   | \$ 1,191        | \$ 1,392        | \$ 1,029        |
| Interest cost  | 1,022           | 915             | 988             |
| Amortization of net loss   | 580             | 1,678           | 843             |
| Net periodic pension cost  | <u>\$ 2,793</u> | <u>\$ 3,985</u> | <u>\$ 2,860</u> |
| <b>Weighted-average assumptions used to determine net periodic cost:</b> |                 |                 |                 |
| Discount rate  | 2.87 %          | 2.52 %          | 3.36 %          |
| Rate of compensation increase  | *               | *               | 4.00 %          |

\* Age graded from 4.5% to 4.0% per year.

**Benefit Payments:** Estimated future benefit payments for the SERP at December 31, 2022 are as follows (in thousands):

|              |           |               |
|--------------|-----------|---------------|
| 2023         | \$        | 942           |
| 2024         |           | 2,103         |
| 2025         |           | 2,121         |
| 2026         |           | 2,329         |
| 2027         |           | 2,435         |
| Thereafter   |           | 12,406        |
| <b>Total</b> | <b>\$</b> | <b>22,336</b> |

**401(k) Investment Incentive Program:**

Registrant has a 401(k) Investment Incentive Program under which employees may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Registrant's cash contributions to the 401(k) are based upon a percentage of individual employee contributions and for the years ended December 31, 2022, 2021 and 2020 were \$2.7 million, \$2.7 million and \$2.5 million, respectively. The Investment Incentive Program also incorporates the defined contribution plan for employees hired on or after January 1, 2011. The cash contributions to the defined contribution plan for the years ended December 31, 2022, 2021 and 2020 were \$2.0 million, \$1.9 million and \$1.9 million, respectively.

**Note 13 — Stock-Based Compensation Plans**

**Summary Description of Stock Incentive Plans**

As of December 31, 2022, AWR had three active stock incentive plans: the 2016 stock incentive plan for its employees, and the 2003 and 2013 non-employee directors plans for its Board of Directors, each more fully described below.

**2016 Employee Plans** — AWR adopted this employee plan, following shareholder approval, to provide stock-based incentive awards in the form of restricted stock units, stock options and restricted stock to employees as a means of promoting the success of Registrant by attracting, retaining and more fully aligning the interests of employees with those of customers and shareholders. The 2016 employee plan also provides for the grant of performance awards. There are no stock options or restricted stock grants currently outstanding. For restricted stock unit awards, the Compensation Committee determines the specific terms, conditions and provisions relating to each restricted stock unit. Each employee who has been granted a time-vested restricted stock unit is entitled to dividend equivalent rights in the form of additional restricted stock units until vesting of the time-vested restricted stock units. In general, time-vested restricted stock units vest over a period of three years. Restricted stock units may also vest upon retirement if the grantee is at least 55 and the sum of the grantee's age and years of service are equal to or greater than 75, or upon death or total disability. In addition, restricted stock units may vest following a change in control if the applicable subsidiary of AWR terminates the grantee other than for cause or the employee terminates employment for good reason. Each restricted stock unit is non-voting and entitles the holder of the restricted stock unit to receive one Common Share.

The Compensation Committee also has the authority to determine the number, amount or value of performance awards, the duration of the performance period or performance periods applicable to the award and the performance criteria applicable to each performance award for each performance period. Each outstanding performance award granted by the Compensation Committee has been in the form of restricted stock units that generally vest over a period of three years as provided in the performance award agreement. The amount of the performance award paid to an employee depends upon satisfaction of performance criteria following the end of a three-year performance period. Performance awards may also vest and be payable upon retirement if the grantee is at least 55 and the sum of the grantee's age and years of service are equal to or greater than 75, or upon death or total disability. In addition, performance awards may vest following a change in control if the applicable subsidiary of AWR terminates the grantee other than for cause or the employee terminates employment for good reason. The amount of the payment for performance awards granted will be at target in the event of death or a termination of employment (other than for cause) by the applicable subsidiary of AWR or termination by the employee for good reason within 24 months after a change in control. In all other circumstances, adjustments will be made to the amount of the payment to take into account the shortened performance period.

**2003 and 2013 Directors Plans** — The Board of Directors and shareholders of AWR have approved the 2003 and 2013 directors plans in order to provide the non-employee directors with supplemental stock-based compensation to encourage them to increase their stock ownership in AWR. New grants may not be made under the 2003 directors plan. Under the 2013 non-employee directors plan, non-employee directors are entitled to receive restricted stock units equal to two times the then

current annual retainer for services as a director divided by the fair market value of AWR's Common Shares on the date preceding the annual meeting. Such units are convertible into AWR's Common Shares 90 days after the grant date.

All non-employee directors of AWR who were directors of AWR at the 2003 annual meeting have also received restricted stock units, which will be distributed upon termination of the director's service as a director.

All restricted stock units and performance awards have been granted with dividend equivalent rights payable in the form of additional restricted stock units.

#### Recognition of Compensation Expense

Registrant recognizes compensation expense related to the fair value of stock-based compensation awards. Share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). Immediate vesting occurs if the employee is at least 55 years old and the sum of the employee's age and years of employment is equal to or greater than 75. Registrant assumes that pre-vesting forfeitures will be minimal, and recognizes pre-vesting forfeitures as they occur, which results in a reduction in compensation expense.

The following table presents share-based compensation expenses for the years ended December 31, 2022, 2021 and 2020. These expenses resulting from restricted stock units, including performance awards, are included in administrative and general expenses in AWR's and GSWC's statements of income:

| (in thousands)                         | AWR                              |          |          | GSWC                             |          |          |
|--|----------------------------------|----------|----------|----------------------------------|----------|----------|
|  | For The Years Ended December 31, |          |          | For The Years Ended December 31, |          |          |
|  | 2022                             | 2021     | 2020     | 2022                             | 2021     | 2020     |
| Stock-based compensation related to:   |                                  |          |          |                                  |          |          |
| Restricted stock units                 | \$ 2,571                         | \$ 2,566 | \$ 2,463 | \$ 2,269                         | \$ 2,313 | \$ 2,349 |
| Total stock-based compensation expense | \$ 2,571                         | \$ 2,566 | \$ 2,463 | \$ 2,269                         | \$ 2,313 | \$ 2,349 |

Equity-based compensation cost capitalized as part of utility plant for the years ended December 31, 2022, 2021 and 2020 was approximately \$290,000, \$336,000 and \$299,000, respectively, for both AWR and GSWC. For the years ended December 31, 2022, 2021 and 2020, approximately \$900,000, \$1.4 million and \$1.2 million, respectively, of tax benefits from stock-based awards were recorded for both AWR and GSWC.

Registrant amortizes stock-based compensation over the requisite (vesting) period for the entire award. Time-vesting restricted stock units vest and become non-forfeitable in installments of 33% the first two years and 34% in the third year, starting one year from the date of the grant. Outstanding performance awards vest and become non-forfeitable in installments of 33% the first two years and 34% in the third year and are distributed at the end of the performance period if the Compensation Committee determines that the performance criteria set forth in the award agreement have been satisfied.

Restricted Stock Units (Time-Vested) — A restricted stock unit ("RSU") represents the right to receive a share of AWR's Common Shares and are valued based on the fair market value of AWR's Common Shares on the date of grant. The fair value of RSUs were determined based on the closing trading price of Common Shares on the grant date. A summary of the status of Registrant's outstanding RSUs, excluding performance awards, to employees and directors as of December 31, 2022, and changes during the year ended December 31, 2022, is presented below:

|   | Number of Restricted Share Units | Weighted Average Grant-Date Value |
|---|----------------------------------|-----------------------------------|
| Restricted share units at January 1, 2022   | 51,110                           | \$ 47.83                          |
| Granted                                     | 19,135                           | 88.10                             |
| Vested                                      | (22,165)                         | 79.11                             |
| Forfeited                                   | (528)                            | 87.42                             |
| Restricted share units at December 31, 2022 | 47,552                           | \$ 49.01                          |

As of December 31, 2022, there was approximately \$611,000 of total unrecognized compensation cost related to time-vested restricted stock units granted under AWR's employee stock plans. That cost is expected to be recognized over a weighted average period of 1.63 years.

**Restricted Stock Units (Performance Awards)** – During the years ended December 31, 2022, 2021 and 2020, the Compensation Committee granted performance awards in the form of restricted stock units to officers of the Registrant. A performance award represents the right to receive a share of AWR's Common Shares if the Compensation Committee determines that specified performance goals have been met over the performance period specified in the grant (generally three years). Each grantee of any outstanding performance award may earn between 0% and up to 200% or 250% of the target amount, which varies depending on the target and Registrant's performance against performance goals, which are determined by the Compensation Committee on the date of grant. As determined by the Compensation Committee, the performance awards granted during the years ended December 31, 2022, 2021 and 2020 included various performance-based conditions and one market-based condition related to total shareholder return ("TSR") that will be earned based on Registrant's TSR compared to the TSR for a specific peer group of investor-owned water companies.

A summary of the status of Registrant's outstanding performance awards to officers as of December 31, 2022, and changes during the year ended December 31, 2022, is presented below:

|   | Number of<br>Performance awards | Weighted Average<br>Grant-Date Value |
|---|---------------------------------|--------------------------------------|
| Performance awards at January 1, 2022   | 48,910                          | \$ 75.23                             |
| Granted                                 | 17,448                          | 88.58                                |
| Performance criteria adjustment         | 1,883                           | 79.25                                |
| Vested                                  | (18,806)                        | 65.78                                |
| Performance awards at December 31, 2022 | 49,435                          | \$ 83.70                             |

A portion of the fair value of performance awards was estimated at the grant date based on the probability of satisfying the market-based condition using a Monte-Carlo simulation model, which assesses the probabilities of various outcomes of the market condition. The portion of the fair value of the performance awards associated with performance-based conditions was based on the fair market value of AWR's Common Shares at the grant date. The fair value of each outstanding performance award grant is amortized into compensation expense in installments of 33% the first two years and 34% in the third year of their respective vesting periods, which is generally over 3 years unless earlier vested pursuant to the terms of the agreement. The accrual of compensation costs is based on the estimate of the final expected value of the award and is adjusted as required for the portion based on the performance-based condition. Unlike the awards with performance-based conditions, for the portion based on the market-based condition, compensation cost is recognized, and not reversed, even if the market condition is not achieved, as required by the accounting guidance for share-based awards. As of December 31, 2022, \$235,000 of unrecognized compensation costs related to performance awards is expected to be recognized over a weighted average period of 1.92 years.

#### **Note 14 - Commitments**

##### **GSWC's Water Supply:**

GSWC has contracts to purchase water or water rights for an aggregate amount of \$3.1 million as of December 31, 2022. Included in the \$3.1 million is a commitment of \$1.5 million to use water rights from a third party under an agreement, which expires in 2028. The remaining \$1.6 million is for commitments for purchased water with other third parties, which expire from 2025 through 2038.

GSWC's estimated future minimum payments under these purchased water supply commitments at December 31, 2022 are as follows (in thousands):

|            |    |       |
|------------|----|-------|
| 2023       | \$ | 459   |
| 2024       |    | 459   |
| 2025       |    | 412   |
| 2026       |    | 364   |
| 2027       |    | 364   |
| Thereafter |    | 1,008 |
| Total      | \$ | 3,066 |



**Bear Valley Electric Service, Inc.:****Purchased Power Contracts:**

Generally, BVESI purchases power at a fixed cost, under long-term purchased power contracts, depending on the amount of power and the period during which the power is purchased under such contracts. BVESI began taking power pursuant to purchased power contracts approved by the CPUC effective in the fourth quarter of 2019 at a fixed cost over three and five-year terms depending on the amount of power and period during which the power is purchased under the contracts. As of December 31, 2022, BVESI has remaining commitments under these contracts of \$4.9 million and \$4.1 million for the years 2023 and 2024, respectively.

**Renewables Portfolio Standard:**

BVESI is subject to the renewables portfolio standard ("RPS") law, which requires BVESI to meet certain targets for purchases of energy from qualified renewable energy resources. BVESI has an agreement with a third party to purchase renewable energy credits ("RECs") whereby BVESI agreed to purchase approximately 578,000 RECs over a ten-year period through 2023, which will be used towards BVESI meeting California's RPS requirements. As of December 31, 2022, BVESI has purchased sufficient RECs to be in compliance for all periods through 2022, and has remaining commitments under this contract of \$619,000 for the year 2023. Accordingly, management does not believe any provision for loss or potential penalties is required as of December 31, 2022. The cost of these RECs has been included as part of the electric supply cost balancing account as of December 31, 2022.

See Note 16 for Registrant's future minimum payments under long-term non-cancelable operating leases.

**Note 15 - Contingencies****Environmental Clean-Up and Remediation at GSWC:**

GSWC has been involved in environmental remediation and cleanup at one of its plant sites 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. Analysis indicates that offsite monitoring wells may also be necessary to document effectiveness of remediation.

As of December 31, 2022, the total spent to clean-up and remediate the plant site was approximately \$6.2 million, of which \$1.5 million has been paid by the State of California Underground Storage Tank Fund. Amounts paid by GSWC have been included in rate base and approved by the CPUC for recovery. As of December 31, 2022, GSWC has a regulatory asset and an accrued liability for the estimated remaining cost of \$1.3 million to complete the cleanup at the site. The estimate includes costs for continued activities of groundwater cleanup and monitoring, future soil treatment and site-closure-related activities. 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 estimated additional costs will continue to be approved in rate base by the CPUC.

**Condemnation of Properties:**

The laws of the State of California 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, these laws provide that the owner of utility property (i) may contest whether the condemnation is necessary and in the public interest, and (ii) is entitled to receive the fair market value of its property if the property is ultimately taken.

**Contracted Services:**

ASUS's utility privatization contract services are provided to the U.S. government pursuant to the terms of the initial 50-year firm, fixed-price contract and additional firm, fixed-price contracts subject to annual economic price adjustments. Entering into contracts with the U.S. government subjects ASUS to potential government audits or investigations of its business practices and compliance with government procurement statutes and regulations. ASUS is currently under a civil government investigation over bidding and estimating practices used in certain capital upgrade projects. ASUS is cooperating fully with the investigation and management does not currently believe that the investigation will have a material adverse effect on its consolidated results of operations, financial condition, or liquidity. However, at this time, management cannot predict the final outcome or recommendations that may result from the investigation or determine the amount, if any, of penalties and damages that may be assessed.

**Other Litigation:**

Registrant is also subject to other ordinary routine litigation incidental to its business, some of which may include claims for compensatory and punitive damages. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against, among other things, property, general liability, employment, and workers' compensation claims incurred in the ordinary course of business. Insurance coverage may not cover certain claims involving punitive

damages. Registrant does not believe the outcome from any pending suits or administrative proceedings will have a material effect on Registrant's consolidated results of operations, financial position, or cash flows.

#### **Note 16 — Leases**

Right-of-use ("ROU") assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. As of December 31, 2022, Registrant has right-of-use assets of \$9.5 million, short-term operating lease liabilities of \$1.9 million and long-term operating lease liabilities of \$8.1 million. Currently, Registrant does not have any financing leases.

Significant assumptions and judgments made as part of the adoption of this new lease standard include determining (i) whether a contract contains a lease, (ii) whether a contract involves an identified asset, and (iii) which party to the contract directs the use of the asset. The discount rates used to calculate the present value of lease payments were determined based on hypothetical borrowing rates available to Registrant over terms similar to the lease terms.

Registrant's leases consist of real estate and equipment leases, which are mostly GSWC's. Most of Registrant's leases require fixed lease payments. Some real estate leases have escalation payments which depend on an index. Variable lease costs were not material. Lease terms used to measure the lease liability include options to extend the lease if the option is reasonably certain to be exercised. Lease and non-lease components were combined to measure lease liabilities.

Registrant's supplemental lease information for the year ended December 31, 2022 is as follows (in thousands, except for weighted average data):

|  | <u>For The Year Ended<br/>December 31, 2022</u> | <u>For The Year Ended<br/>December 31, 2021</u> |
|--|---|---|
| Operating lease costs  | \$2,609   | \$2,627   |
| Short-term lease costs                                       | \$198   | \$273   |
| Weighted average remaining lease term (in years)             | 5.27  | 5.99  |
| Weighted-average discount rate                               | 3.9%  | 3.7%  |
| Non-cash transactions  |   |   |
| Lease liabilities arising from obtaining right-of-use assets | \$1,569   | \$1,430   |

For the years 2022, 2021 and 2020, Registrant's consolidated rent expense was approximately \$2.6 million, \$2.5 million and \$2.6 million, respectively. Registrant's future minimum payments under long-term non-cancelable operating leases as of December 31, 2022 are as follows (in thousands):

|                             |    |        |
|-----------------------------|----|--------|
| 2023                        | \$ | 2,256  |
| 2024                        |    | 2,175  |
| 2025                        |    | 1,918  |
| 2026                        |    | 1,681  |
| 2027                        |    | 1,453  |
| Thereafter                  |    | 1,604  |
| Total lease payments        |    | 11,087 |
| Less: imputed interest      |    | 1,105  |
| Total lease obligations     |    | 9,982  |
| Less: current obligations   |    | 1,892  |
| Long-term lease obligations | \$ | 8,090  |

The consolidated operations of AWR and the operations of GSWC in regard to future minimum payments under long-term non-cancelable operating leases are not materially different.

**Note 17 - Business Segments**

AWR has three reportable segments, water, electric and contracted services. Since July 1, 2020, GSWC has one segment, water. Prior to July 1, 2020, GSWC also had an electric segment. On July 1, 2020, GSWC completed the transfer of the electric utility assets and liabilities from its electric division to BVESI, now a wholly owned direct subsidiary of AWR. As a result of this transfer, from July 1, 2020 onward, operating results and cash flows of the electric segment, as well as its assets and liabilities as of December 31, 2022, 2021 and 2020, are no longer included in GSWC's financial statements, but continue to be included in AWR's consolidated financial statements (Note 20). On a stand-alone basis, AWR has no material assets other than its equity investments in its subsidiaries and notes receivable therefrom, and deferred taxes.

All activities of GSWC and BVESI are geographically located within California. Activities of ASUS and the Military Utility Privatization Subsidiaries are conducted in California, Florida, Georgia, Kansas, Maryland, New Mexico, North Carolina, South Carolina, Texas and Virginia. Some of ASUS's wholly owned subsidiaries are regulated by the state in which the subsidiary primarily conducts water and/or wastewater operations. Fees charged for operations and maintenance and renewal and replacement services are based upon the terms of the contracts with the U.S. government, which have been filed, as appropriate, with the commissions in the states in which ASUS's subsidiaries are incorporated.

The tables below set forth information relating to the water and electric operating segments, ASUS and the Military Utility Privatization Subsidiaries and other matters. The utility plant balances are net of respective accumulated provisions for depreciation. Capital additions reflect capital expenditures paid in cash and exclude U.S. government-funded and third-party prime funded capital expenditures for ASUS and property installed by developers and conveyed to GSWC and BVESI.

| (dollars in thousands)                    | As Of And For The Year Ended December 31, 2022 |           |            |            |                  |
|---|--|-----------|------------|------------|------------------|
|   | Water  | Electric  | ASUS       | AWR Parent | Consolidated AWR |
| Operating revenues                        | \$ 340,602                                     | \$ 39,986 | \$ 110,940 | \$ —       | \$ 491,528       |
| Operating income (loss)                   | 92,455   | 11,740    | 22,449     | (8)        | 126,636          |
| Interest expense, net                     | 21,659   | 831       | (132)      | 2,343      | 24,701           |
| Net utility plant                         | 1,616,718                                      | 119,560   | 17,488     | —          | 1,753,766        |
| Depreciation and amortization expense (1) | 34,805   | 2,792     | 3,718      | —          | 41,315           |
| Income tax expense (benefit)              | 16,346   | 2,439     | 5,476      | (597)      | 23,664           |
| Capital additions                         | 146,730  | 18,069    | 1,441      | —          | 166,240          |

| (dollars in thousands)                    | As Of And For The Year Ended December 31, 2021 |           |            |            |                  |
|---|--|-----------|------------|------------|------------------|
|   | Water  | Electric  | ASUS       | AWR Parent | Consolidated AWR |
| Operating revenues                        | \$ 347,112                                     | \$ 38,345 | \$ 113,396 | \$ —       | \$ 498,853       |
| Operating income (loss)                   | 107,573  | 10,738    | 22,675     | (9)        | 140,977          |
| Interest expense, net                     | 21,046   | 141       | (637)      | 791        | 21,341           |
| Net utility plant                         | 1,499,745                                      | 106,508   | 19,751     | —          | 1,626,004        |
| Depreciation and amortization expense (1) | 33,384   | 2,572     | 3,640      | —          | 39,596           |
| Income tax expense/(benefit)              | 22,095   | 2,975     | 5,434      | (81)       | 30,423           |
| Capital additions                         | 123,526  | 19,859    | 1,130      | —          | 144,515          |

| (dollars in thousands)                    | As Of And For The Year Ended December 31, 2020 |           |            |            |                  |
|---|--|-----------|------------|------------|------------------|
|   | GSWC   |           | ASUS       | AWR Parent | Consolidated AWR |
|   | Water  | Electric  |            |            |                  |
| Operating revenues                        | \$ 330,637                                     | \$ 37,024 | \$ 120,582 | \$ —       | \$ 488,243       |
| Operating income (loss)                   | 97,896   | 10,303    | 22,309     | (9)        | 130,499          |
| Interest expense, net                     | 20,312   | 584       | (496)      | 330        | 20,730           |
| Net utility plant                         | 1,400,489                                      | 89,308    | 22,246     | —          | 1,512,043        |
| Depreciation and amortization expense (1) | 30,969   | 2,479     | 3,402      | —          | 36,850           |
| Income tax expense/(benefit)              | 20,515   | 2,689     | 5,201      | (208)      | 28,197           |
| Capital additions                         | 107,355  | 18,393    | 4,675      | —          | 130,423          |

(1) Depreciation computed on regulated utilities' transportation equipment is recorded in other operating expenses and totaled \$382,000, \$379,000 and \$353,000 for the years ended December 31, 2022, 2021 and 2020, respectively.

The following table reconciles total utility plant (a key figure for rate-making) to total consolidated assets (in thousands):

|                           | December 31,        |                     |
|---------------------------|---------------------|---------------------|
|                           | 2022                | 2021                |
| Total utility plant       | \$ 1,753,766        | \$ 1,626,004        |
| Other assets              | 280,608             | 274,979             |
| Total consolidated assets | <u>\$ 2,034,374</u> | <u>\$ 1,900,983</u> |

#### Note 18 — Allowance for Doubtful Accounts

Registrant adopted ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020. The guidance requires estimated credit losses on financial instruments, such as Registrant's trade and other receivables, be based on expected credit losses rather than incurred losses.

Registrant's allowance for doubtful accounts as of December 31, 2022 was developed based on the observed lingering effects of the economic impact from the COVID-19 pandemic on GSWC's and BVESI's aging of utility customer accounts receivable, as well as economic data and other considerations that may impact the customers' ability to pay their bills. The CPUC has authorized GSWC and BVESI to track incremental costs, including bad debt expense in excess of what is included in their respective revenue requirements, incurred as a result of the pandemic in COVID-19 related memorandum accounts to be filed with the CPUC for future recovery. In January 2022, GSWC received \$9.5 million COVID relief funds from the state of California through the California Water and Wastewater Arrearage Payment Program, which were applied to delinquent customers' eligible balances incurred during the COVID-19 pandemic. During 2022, BVESI received a total of \$473,000 from the state of California for similar relief funding for unpaid electric bills incurred during the pandemic. Pursuant to CPUC requirements, as of December 31, 2022, GSWC and BVESI have reflected these relief funds as a reduction to its COVID-19 memorandum account, as well as a reduction to its estimated allowance for doubtful accounts.

Other accounts receivable consist primarily of amounts due from third parties (non-utility customers) for various reasons, including amounts due from contractors, amounts due under settlement agreements, and amounts due from other third-party prime government contractors pursuant to agreements for construction of water and/or wastewater facilities for such third-party prime contractors. Thus far, the COVID-19 pandemic has not materially impacted the collectability of these other accounts receivable.

The table below presents Registrant's provision for doubtful accounts charged to expense and accounts written off, net of recoveries. Provisions included in 2022, 2021 and 2020 for AWR and GSWC are as follows:

| (dollars in thousands)  | AWR             |                 |                 |
|---|-----------------|-----------------|-----------------|
|   | December 31,    |                 |                 |
|   | 2022            | 2021            | 2020            |
| Balance at beginning of year  | \$ 3,569        | \$ 5,316        | \$ 916          |
| Provision charged (1)   | 2,842           | 8,150           | 5,016           |
| Accounts written off, net of recoveries (2)                             | (1,971)         | (9,897)         | (616)           |
| Balance at end of year  | <u>\$ 4,440</u> | <u>\$ 3,569</u> | <u>\$ 5,316</u> |
| Allowance for doubtful accounts related to accounts receivable-customer | \$ 4,387        | \$ 3,516        | \$ 5,263        |
| Allowance for doubtful accounts related to other accounts receivable    | 53              | 53              | 53              |
| Total allowance for doubtful accounts                                   | <u>\$ 4,440</u> | <u>\$ 3,569</u> | <u>\$ 5,316</u> |

(1) Includes amounts in excess of GSWC's and BVESI's respective revenue requirements incurred during the COVID-19 pandemic. These incremental amounts are recorded as regulatory assets.

(2) Reflects consideration of government relief funds received in 2022 from the state of California for unpaid water and electric utility bills incurred during the pandemic. A total of \$9.5 million and \$473,000 was received in 2022 for unpaid water and electric utility bills, respectively.

| (dollars in thousands)  | GSWC         |          |          |
|---|--------------|----------|----------|
|   | December 31, |          |          |
|   | 2022         | 2021     | 2020     |
| Balance at beginning of year  | \$ 3,221     | \$ 4,960 | \$ 916   |
| Provision charged (3)   | 2,501        | 7,732    | 4,703    |
| Balance transfer to BVESI (Note 20)                                     | —            | —        | (79)     |
| Accounts written off, net of recoveries (4)                             | (1,526)      | (9,471)  | (580)    |
| Balance at end of year  | \$ 4,196     | \$ 3,221 | \$ 4,960 |
| Allowance for doubtful accounts related to accounts receivable-customer | \$ 4,143     | \$ 3,168 | \$ 4,907 |
| Allowance for doubtful accounts related to other accounts receivable    | 53           | 53       | 53       |
| Total allowance for doubtful accounts                                   | \$ 4,196     | \$ 3,221 | \$ 4,960 |

(3) Includes amounts in excess of GSWC's revenue requirement incurred during the COVID-19 pandemic. This incremental amount was recorded as a regulatory asset.

(4) Reflects consideration of government relief funds received in 2022 from the state of California for unpaid water and electric utility bills incurred during the pandemic. A total of \$9.5 million and \$473,000 was received in 2022 for unpaid water and electric utility bills, respectively.

**Note 19 — Supplemental Cash Flow Information**

The following table sets forth non-cash financing and investing activities and other cash flow information (in thousands).

|   | AWR          |           |           | GSWC         |           |          |
|---|--------------|-----------|-----------|--------------|-----------|----------|
|   | December 31, |           |           | December 31, |           |          |
|   | 2022         | 2021      | 2020      | 2022         | 2021      | 2020     |
| <b>Taxes and Interest Paid:</b>   |              |           |           |              |           |          |
| Income taxes paid, net  | \$ 27,370    | \$ 29,153 | \$ 13,684 | \$ 20,155    | \$ 21,428 | \$ 8,184 |
| Interest paid, net of capitalized interest  | 26,005       | 22,540    | 19,941    | 22,294       | 21,156    | 19,681   |
| <b>Non-Cash Transactions:</b>   |              |           |           |              |           |          |
| Accrued payables for investment in utility plant  | 40,034       | 32,855    | 27,861    | 38,302       | 30,656    | 25,633   |
| Property installed by developers and conveyed   | 1,549        | 7,222     | 3,102     | 1,549        | 7,222     | 3,102    |
| Transfer of electric segment net assets (net of cash) for BVESI common shares (Note 20) | —            | —         | —         | —            | —         | 71,324   |
| Distribution of BVESI common shares to AWR parent (Note 20)                             | —            | —         | —         | —            | —         | 71,344   |

**Note 20 — Completion of Electric Utility Reorganization Plan**

On July 1, 2020, GSWC completed the transfer of approximately \$71.3 million in net assets and equity (based on their recorded amounts) from its electric utility division to BVESI in exchange for common shares of BVESI of equal value. As a result of this transfer, from July 1, 2020 onward, operating results and cash flows of the electric segment, as well as its assets and liabilities as of December 31, 2022, 2021 and 2020, are no longer included in GSWC's financial statements, but continue to be included in AWR's consolidated financial statements. GSWC's statement of income for 2020 includes the electric segment's results through June 30, 2020. The table below sets forth selected information relating to the electric segment's results of operations for 2022, 2021, and for the six month periods ended June 30, 2020 and December 31, 2020 (in thousands):

|                    | Twelve months ended<br>December 31, 2022<br>(Subsidiary of AWR) | Twelve months ended<br>December 31, 2021<br>(Subsidiary of AWR) | Six months ended June 30,<br>2020<br>(Division of GSWC) | Six months ended<br>December 31, 2020<br>(Subsidiary of AWR) | Twelve months ended<br>December 31, 2020 |
|--------------------|---|---|---|--|--|
| Electric revenues  | \$ 39,986   | \$ 38,345   | \$ 18,647   | \$ 18,377  | \$ 37,024                                |
| Operating expenses | 28,246  | 27,607  | 13,647  | 13,074   | 26,721                                   |
| Operating income   | 11,740  | 10,738  | 5,000   | 5,303  | 10,303                                   |
| Net income         | \$ 8,876  | \$ 7,864  | \$ 3,408  | \$ 3,870   | \$ 7,278                                 |

The table below sets forth selected information relating to the electric segment's cash flows for 2022, 2021, as well as the six months ended December 31, 2020. Prior to July 1, 2020, the electric segment's cash flows were included in GSWC's cash flows.

|  | For the Twelve Months Ended<br>December 31, 2022<br>(Subsidiary of AWR) | For the Twelve Months Ended<br>December 31, 2021<br>(Subsidiary of AWR) | Six Months Ended December<br>31, 2020<br>(Subsidiary of AWR) |
|--|---|---|--|
| Net cash provided from operating activities                  | \$ 6,627  | \$ 9,128  | \$ 1,887   |
| Net cash used in investing activities (capital expenditures) | (17,989)  | (19,859)  | (9,339)  |
| Net cash provided from financing activities (1)              | 11,082  | 10,827  | 7,799  |
| Net change in cash and cash equivalents                      | (280)   | 96  | 347  |
| Cash and cash equivalents, beginning of period               | 463   | 367   | 20   |
| Cash and cash equivalents, end of period                     | \$ 183  | \$ 463  | \$ 367   |

- (1) BVESI has access to a \$35.0 million revolving credit facility, which expires July 1, 2024. As of December 31, 2022, there was \$22.0 million outstanding under this facility. Borrowings made under this facility support the electric segment's operations and capital expenditures. Under the terms of the credit agreement, BVESI has the option to request an increase in the facility by an additional \$15.0 million, subject to bank approval.

In addition, on April 28, 2022, BVESI completed the issuance of \$35.0 million in unsecured private-placement notes consisting of \$17.5 million at a coupon rate of 4.548% due April 28, 2032 and \$17.5 million at a coupon rate of 4.949% due April 28, 2037.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures****(a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our principal executive officer and our principal financial officer concluded that the disclosure controls and procedures of AWR and GSWC were effective as of the end of the period covered by this annual report.

**(b) Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that the internal control over financial reporting of AWR and GSWC was effective as of December 31, 2022.

**(c) Attestation Report of the Independent Registered Public Accounting Firm**

The effectiveness of our internal control over financial reporting of AWR as of December 31, 2022 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

**(d) Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) or 15d(f) under the Exchange Act) of AWR and GSWC that occurred during the fourth quarter of 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

On March 1, 2023, the Board of Directors approved change in control agreements for Registrant's executive officers, which provide benefits in the event of a change in control if the executive's employment is terminated (other than for cause, disability or death) or the executive terminates employment for good reason, in each case, following a change in control event. The amount of the benefits are equal to 2.99 or 2.0 times (i) the executive's base salary at the highest rate in effect during the preceding three years immediately preceding the termination of employment, plus (ii) any payments to be made to an executive under a cash performance incentive plan with respect to the year of employment and assuming the performance targets are achieved at target. In addition, the executive is entitled to vacation pay as provided by California law and so long as the executive has not breached his or her one-year non-competition and non-solicitation agreements, accrued benefits that would have been payable under either the pension plan or defined contribution plan in which the executive is a participant and the supplemental retirement plan if the executive is credited with an additional three years of service. Each executive is also entitled to two years of coverage under Registrant's health and welfare plans (three years for the Chief Executive Officer and Chief Financial Officer). No tax gross ups will be paid under the terms of the agreement.

The Form of the Change in Control Agreement is filed as Exhibit 10.6 to this Annual Report.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.**

Not applicable.

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

Information responsive to Part III, Item 10 is included in the Proxy Statement, to be filed by AWR with the SEC pursuant to Regulation 14A, under the captions therein entitled: (i) "Proposal 1: Election of Directors"; (ii) "Executive Officers"; (iii) "Governance of the Company"; (iv) "Stock Ownership"; (v) "Nominating and Governance Committee"; (vi) "Audit and Finance Committee;" and (vii) "Obtaining Additional Information From Us" and is incorporated herein by reference pursuant to General Instruction G(3).

#### **Item 11. Executive Compensation**

Information responsive to Part III, Item 11 is included in the Proxy Statement, to be filed by AWR with the SEC pursuant to Regulation 14A, under the captions therein entitled: (i) "Proposal 1: Election of Directors"; (ii) "Executive Officers;" and (iii) "Compensation Committee" and is incorporated herein by reference pursuant to General Instruction G(3).

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information responsive to Part III, Item 12 is included in the Proxy Statement, to be filed by AWR with the SEC pursuant to Regulation 14A, under the captions entitled "Stock Ownership" and "Proposal 2 Approval of 2023 Non-Employee Director Plan" are incorporated herein by reference pursuant to General Instruction G(3).

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information responsive to Part III, Item 13 is included in the Proxy Statement, to be filed by AWR with the SEC pursuant to Regulation 14A, under the caption therein entitled "Governance of the Company" and is incorporated herein by reference pursuant to General Instruction G(3).

#### **Item 14. Principal Accounting Fees and Services**

Information responsive to Part III, Item 14 is included in the Proxy Statement, to be filed by AWR with the SEC pursuant to Regulation 14A, under the caption therein entitled "Proposal 3: Ratification of Auditors" and is incorporated herein by reference pursuant to General Instruction G(3).



## PART IV

**Item 15. Exhibits, Financial Statement Schedules****(a) The following documents are filed as a part of this Annual Report on Form 10-K:**

1. Reference is made to the Financial Statements incorporated herein by reference to Part II, Item 8 hereof.
2. Schedule I — Condensed Financial Information of American States Water Company Parent at December 31, 2022 and 2021 and for the years ended December 31, 2022, 2021 and 2020. Schedules II, III, IV, and V are omitted as they are not applicable.  
See page [121](#).
3. Reference is made to Item 15(b) of this Annual Report on Form 10-K.

**(b) Exhibits:**

- 3.1 [By-Laws of American States Water Company incorporated by reference to Exhibit 3.1 of Registrant's Form 10-O, filed August 6, 2012 \(File No. 1-14431\)](#)
- 3.2 [By-laws of Golden State Water Company incorporated by reference to Exhibit 3.2 of Registrant's Form 8-K filed May 13, 2011 \(File No. 1-14431\)](#)
- 3.3 [Amended and Restated Articles of Incorporation of American States Water Company, as amended, incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K filed June 19, 2013](#)
- 3.4 [Restated Articles of Incorporation of Golden State Water Company, as amended, incorporated herein by reference to Exhibit 3.1 of Registrant's Form 10-O for the quarter ended September 30, 2005 \(File No. 1-14431\)](#)
- 4.1 [Indenture, dated September 1, 1993 between Golden State Water Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, as supplemented, incorporated herein by reference to Exhibit 4.01 of Golden State Water Company Form S-3 filed December 12, 2008 \(File No. 333-156112\)](#)
- 4.2 [Note Purchase Agreement dated as of October 11, 2005 between Golden State Water Company and Co-Bank, ACB incorporated by reference to Exhibit 4.1 of Registrant's Form 8-K filed October 13, 2005 \(File No. 1-14431\)](#)
- 4.3 [Description of Common Shares incorporated by reference to Exhibit 4.3 to Registrant's Form 10-K for the year ended December 31, 2019](#)
- 4.4 [Description of Debt Securities incorporated by reference to Exhibit 4.4 to Registrant's Form 10-K for the year ended December 31, 2021](#)
- 10.1 [Second Sublease dated October 5, 1984 between Golden State Water Company and Three Valleys Municipal Water District incorporated herein by reference to Registrant's Registration Statement on Form S-2, Registration No. 33-5151](#)
- 10.2 [Loan Agreement between California Pollution Control Financing Authority and Golden State Water Company, dated as of December 1, 1996 incorporated by reference to Exhibit 10.7 of Registrant's Form 10-K for the year ended December 31, 1998 \(File No. 1-14431\)](#)
- 10.3 [Water Supply Agreement dated as of June 1, 1994 between Golden State Water Company and Central Coast Water Authority incorporated herein by reference to Exhibit 10.15 of Registrant's Form 10-K with respect to the year ended December 31, 1994 \(File No. 1-14431\)](#)
- 10.4 [2003 Non-Employee Directors Stock Purchase Plan, as amended, incorporated herein by reference to Exhibit 10.4 to Registrant's Form 8-K filed on May 20, 2015 \(File No. 1-14431\)\(2\)](#)
- 10.5 [Dividend Reinvestment and Common Share Purchase Plan incorporated herein by reference to American States Water Company Registrant's Form S-3D filed November 12, 2008 \(File No. 1-14431\)](#)
- 10.6 [Change in Control Agreement between American States Water Company or a subsidiary and certain executives incorporated herein by reference to Exhibit 10.6 to Registrant's Form 10-K for the year ended December 31, 2022 \(1\)\(2\)](#)
- 10.7 [Golden State Water Company Supplemental Executive Retirement Plan, amended and restated, incorporated herein by reference to Exhibit 10.7 to Registrant's Form 10-O filed on May 2, 2022 \(2\)](#)
- 10.8 [Amended and Restated Credit Agreement between American States Water Company dated June 3, 2005 with Wells Fargo Bank, N.A., as Administrative Agent, as amended, incorporated by reference to Exhibit 10.1 to Registrant's 8-K dated April 22, 2022](#)

|         |   |
|---------|---|
| 10.9    | <a href="#">Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments incorporated herein by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on April 2, 2014 (2)</a>   |
| 10.10   | <a href="#">Officer Relocation Policy incorporated herein by reference to Exhibit 10.5 to the Registrant's Form 8-K filed on July 31, 2009 (2)</a>  |
| 10.11   | <a href="#">Form of Indemnification Agreement for directors and officers incorporated by reference to Exhibit 10.35 to the Registrant's Form 10-K for the period ended December 31, 2012 (2)</a>  |
| 10.12   | <a href="#">2016 Stock Incentive Plan incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on May 19, 2016 (2)</a>  |
| 10.13   | <a href="#">2013 Non-Employee Directors Plan incorporated by reference herein to Exhibit 10.2 to the Registrant's Form 8-K filed on March 25, 2016 (2)</a>  |
| 10.14   | <a href="#">Form of Restricted Stock Award Agreement for officers with respect to time-vested restricted stock awards under the 2016 Stock Incentive Plan after December 31, 2017 incorporated by reference to Exhibit 10.1 of Form 8-K filed on November 3, 2017 (2)</a> |
| 10.15   | <a href="#">Note Purchase Agreement dated July 8, 2020 incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed July 14, 2020</a>   |
| 10.16   | <a href="#">Form of 2020 Performance Award Agreement incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed January 31, 2020 (2)</a>  |
| 10.17   | <a href="#">Form of 2021 Performance Award Agreement incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed February 5, 2021 (2)</a>  |
| 10.18   | <a href="#">Separation Agreement and General Release of Claims dated August 10, 2021 incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on August 13, 2021 (2)</a>  |
| 10.19   | <a href="#">Retirement Agreement and General Release of Claims effective January 14, 2022, incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on January 21, 2022 (2)</a>   |
| 10.20   | <a href="#">Contract for Professional Services effective January 15, 2022, incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K filed on January 21, 2022 (2)</a>   |
| 10.21   | <a href="#">Form of 2022 Performance Award Agreement incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed February 4, 2022 (2)</a>  |
| 10.22   | <a href="#">2022 Short-Term Incentive Program incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on April 1, 2022 (2)</a>   |
| 10.23   | <a href="#">Form of 2023 Performance Award Agreement incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed February 10, 2023 (2)</a>   |
| 10.24   | <a href="#">Form of Indemnification Agreement for directors and officers incorporated by reference herein to Exhibit 10.24 to the Registrant's Form 10-K for the year ended December 31, 2022 (1),(2)</a>   |
| 21      | <a href="#">Subsidiaries of Registrant (1)</a>  |
| 23.1    | <a href="#">Consent of Independent Registered Public Accounting Firm for AWR (1)</a>  |
| 31.1    | <a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for AWR (1)</a>  |
| 31.1.1  | <a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for GSWC (1)</a>   |
| 31.2    | <a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for AWR (1)</a>  |
| 31.2.1  | <a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for GSWC (1)</a>   |
| 32.1    | <a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (3)</a>  |
| 32.2    | <a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (3)</a>  |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.   |
| 101.SCH | XBRL Taxonomy Extension Schema (3)  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase (3)  |

|         |  |
|---------|--|
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase (3)  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase (3)   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase (3)  |
| 104     | Cover Page Interactive Data File - (formatted as Inline XBRL and contained in Exhibit 101) |

**(c) See Item 15(a)(2)**

- 
- (1) Filed concurrently herewith
  - (2) Management contract or compensatory arrangement
  - (3) Furnished concurrently herewith

**Item 16. Form 10-K Summary**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrants have duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**AMERICAN STATES WATER COMPANY (“AWR”):**

By: /s/ EVA G. TANG

Eva G. Tang  
Senior Vice President-Finance, Chief Financial  
Officer, Treasurer and Corporate Secretary

**GOLDEN STATE WATER COMPANY (“GSWC”):**

By: /s/ EVA G. TANG

Eva G. Tang  
Senior Vice President-Finance, Chief Financial  
Officer and Secretary

Date: March 1, 2023

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrants and in the capacities and on the dates indicated.

|   | Date:                |
|---|----------------------|
| <u>/s/ ANNE M. HOLLOWAY</u><br>Anne M. Holloway<br>Chairman of the Board and Director of AWR and GSWC   | <u>March 1, 2023</u> |
| <u>/s/ ROBERT J. SPROWLS</u><br>Robert J. Sprowls<br>Principal Executive Officer, President and Chief Executive Officer of AWR and GSWC and Director of AWR and GSWC  | <u>March 1, 2023</u> |
| <u>/s/ EVA G. TANG</u><br>Eva G. Tang<br>Principal Financial and Accounting Officer, Senior Vice President-Finance, Chief Financial Officer, Treasurer and Corporate Secretary of AWR; and Principal Financial and Accounting Officer, Senior Vice President-Finance, Chief Financial Officer and Secretary of GSWC | <u>March 1, 2023</u> |
| <u>/s/ DIANA M. BONTÁ</u><br>Diana M. Bontá<br>Director of AWR and GSWC   | <u>March 1, 2023</u> |
| <u>/s/ STEVEN D. DAVIS</u><br>Steven D. Davis<br>Director of AWR and GSWC   | <u>March 1, 2023</u> |
| <u>/s/ THOMAS A. EICHELBERGER</u><br>Thomas A. Eichelberger<br>Director of AWR and GSWC   | <u>March 1, 2023</u> |
| <u>/s/ JOHN R. FIELDER</u><br>John R. Fielder<br>Director of AWR and GSWC   | <u>March 1, 2023</u> |
| <u>/s/ MARY ANN HOPKINS</u><br>Mary Ann Hopkins<br>Director of AWR and GSWC   | <u>March 1, 2023</u> |
| <u>/s/ C. JAMES LEVIN</u><br>C. James Levin<br>Director of AWR and GSWC   | <u>March 1, 2023</u> |
| <u>/s/ JANICE F. WILKINS</u><br>Janice F. Wilkins<br>Director of AWR and GSWC   | <u>March 1, 2023</u> |

**CONDENSED BALANCE SHEETS**

| (in thousands)                              | December 31,      |                   |
|---|-------------------|-------------------|
|   | 2022              | 2021              |
| <b>Assets</b>                               |                   |                   |
| Cash and equivalents                        | \$ 93             | \$ 51             |
| Income taxes receivable                     | 20                | —                 |
| Intercompany note receivables               | 159,582           | 79,722            |
| <b>Total current assets</b>                 | <b>159,695</b>    | <b>79,773</b>     |
| Investments in subsidiaries                 | 799,802           | 774,751           |
| Deferred taxes and other assets             | 9,891             | 9,620             |
| <b>Total assets</b>                         | <b>\$ 969,388</b> | <b>\$ 864,144</b> |
| <b>Liabilities and Capitalization</b>       |                   |                   |
| Notes payable to bank                       | \$ 255,500        | \$ —              |
| Income taxes payable                        | 2,158             | 1,765             |
| Other liabilities                           | 454               | 309               |
| <b>Total current liabilities</b>            | <b>258,112</b>    | <b>2,074</b>      |
| Notes payable to bank                       | —                 | 174,500           |
| Deferred taxes and other liabilities        | 1,727             | 1,623             |
| <b>Total other liabilities</b>              | <b>1,727</b>      | <b>176,123</b>    |
| Common shareholders' equity                 | 709,549           | 685,947           |
| <b>Total capitalization</b>                 | <b>709,549</b>    | <b>685,947</b>    |
| <b>Total liabilities and capitalization</b> | <b>\$ 969,388</b> | <b>\$ 864,144</b> |

*The accompanying condensed notes are an integral part of these condensed financial statements.*

CONDENSED STATEMENTS OF INCOME

| (In thousands, except per share amounts)                        | For the Years Ended December 31, |           |           |
|---|----------------------------------|-----------|-----------|
|   | 2022                             | 2021      | 2020      |
| Operating revenues and other income                             | \$ —                             | \$ —      | \$ —      |
| Operating expenses and other expenses                           | 2,093                            | 542       | 90        |
| Loss before equity in earnings of subsidiaries and income taxes | (2,093)                          | (542)     | (90)      |
| Equity in earnings of subsidiaries                              | 79,892                           | 94,808    | 86,307    |
| Income before income taxes                                      | 77,799                           | 94,266    | 86,217    |
| Income tax benefit  | (597)                            | (81)      | (208)     |
| Net income  | \$ 78,396                        | \$ 94,347 | \$ 86,425 |
| Weighted Average Number of Common Shares Outstanding            | 36,955                           | 36,921    | 36,880    |
| Basic Earnings Per Common Share                                 | \$ 2.12                          | \$ 2.55   | \$ 2.34   |
| Weighted Average Number of Diluted Common Shares Outstanding    | 37,039                           | 37,010    | 36,995    |
| Fully Diluted Earnings per Common Share                         | \$ 2.11                          | \$ 2.55   | \$ 2.33   |
| Dividends Paid Per Common Share                                 | \$ 1.525                         | \$ 1.40   | \$ 1.28   |

*The accompanying condensed notes are an integral part of these condensed financial statements.*

CONDENSED STATEMENTS OF CASH FLOWS

| (in thousands)   | For the Years Ended December 31, |           |           |
|--|----------------------------------|-----------|-----------|
|  | 2022                             | 2021      | 2020      |
| Cash Flows From Operating Activities                   | \$ 56,398                        | \$ 36,799 | \$ 47,307 |
| Cash Flows From Investing Activities:                  |                                  |           |           |
| Loans (made to)/repaid from, wholly-owned subsidiaries | (81,000)                         | (46,000)  | 151,000   |
| Increase in investment of subsidiary                   | —                                | —         | (60,000)  |
| Net cash (used in) provided by investing activities    | (81,000)                         | (46,000)  | 91,000    |
| Cash Flows From Financing Activities:                  |                                  |           |           |
| Proceeds from stock option exercises                   | —                                | —         | 30        |
| Net change in notes payable to banks                   | 81,000                           | 60,500    | (91,000)  |
| Proceeds from note payable to GSWC                     | —                                | (26,000)  | (6,000)   |
| Repayment of note payable to GSWC                      | —                                | 26,000    | 6,000     |
| Dividends paid   | (56,356)                         | (51,689)  | (47,206)  |
| Net cash provided by (used in) financing activities    | 24,644                           | 8,811     | (138,176) |
| Change in cash and equivalents                         | 42                               | (390)     | 131       |
| Cash and equivalents at beginning of period            | 51                               | 441       | 310       |
| Cash and equivalents at the end of period              | \$ 93                            | \$ 51     | \$ 441    |

*The accompanying condensed notes are an integral part of these condensed financial statements.*



**Note 1 — Basis of Presentation**

The accompanying condensed financial statements of AWR (parent) should be read in conjunction with the consolidated financial statements and notes thereto of American States Water Company and subsidiaries ("Registrant") included in Part II, Item 8 of this Form 10-K. AWR's (parent) significant accounting policies are consistent with those of Registrant and its wholly owned subsidiaries, Golden State Water Company ("GSWC"), Bear Valley Electric Service, Inc. ("BVESI") and American States Utility Services, Inc. ("ASUS"), except that all subsidiaries are accounted for as equity method investments.

**Related-Party Transactions:**

As further discussed in Note 2 — Notes Payable to Banks, AWR (parent) currently has access to a \$280.0 million revolving credit facility that expires in May 2023. AWR (parent) borrows under this facility and provides funds to GSWC and ASUS in support of their operations. Any amounts owed to AWR (parent) for borrowings under this facility are reflected as intercompany receivables on the condensed balance sheets. The interest rate charged to the subsidiaries is sufficient to cover AWR (parent)'s interest cost under the credit facility.

In October 2020, AWR (parent) issued an interest bearing promissory note to GSWC, which expires in May 2023. Under the terms of the note, AWR (parent) may borrow from GSWC amounts up to \$30.0 million for working capital purposes. AWR (parent) agrees to pay any unpaid principal amounts outstanding under this note, plus accrued interest. During 2021 and 2020, AWR borrowed and repaid a total of \$26.0 million and \$6.0 million, respectively, from GSWC under the terms of the note. There were no borrowings or repayments during 2022. As of December 31, 2021 and 2022, there were no amounts outstanding under this note.

In January 2023, the Board of Directors approved the issuance of one GSWC Common Share to AWR for \$10.0 million. Proceeds from the stock issuance was used to pay down its intercompany borrowings owed to AWR.

AWR (parent) guarantees performance of ASUS's military privatization contracts and agrees to provide necessary resources, including financing, which are necessary to assure the complete and satisfactory performance of such contracts.

**Note 2 — Note Payable to Banks**

On April 22, 2022, AWR's credit facility was amended to increase the borrowing capacity from \$200.0 million to \$280.0 million. The amendment also changed the benchmark interest rate from the London Interbank Offered Rate ("LIBOR") to the Secured Overnight Financing Rate ("SOFR"). The change in benchmark rates has not had a material impact on its financing costs.

The aggregate effective amount that may be outstanding under letters of credit is \$25.0 million. AWR has obtained letters of credit for AWR and GSWC in the aggregate amount of \$639,000 at fees of 0.65%. Letters of credit outstanding reduce the amount that may be borrowed under the revolving credit facility. AWR is not required to maintain any compensating balances.

Given that AWR's credit agreement will expire in May 2023, the outstanding borrowings under the credit facility of \$255.5 million as of December 31, 2022 have been classified as a current liability on AWR's Consolidated Balance Sheet, thus creating a negative working-capital condition for AWR of \$245.2 million. Management plans to either renew and extend AWR's credit facility or to enter into a new credit facility prior to its expiration date, and is confident, given AWR's history in obtaining revolving credit facilities to meet its working-capital needs, that AWR will be able to do so with the needed borrowing capacities required to run its operations. Management believes that execution of its plan is probable based on Registrant's ability to generate consistent cash flows, its A+ credit ratings, its relationships with lenders, and its history of successfully raising debt necessary to fund its operations. As of March 1, 2023, AWR does not have sufficient liquidity or capital resources to repay its credit facility without, extending its existing credit facility, entering into a new credit facility, or issuing new debt or equity.

Loans may be obtained under this credit facility at the option of AWR and bear interest at rates based on credit ratings and SOFR margins. In June 2022, Standard and Poor's Global Ratings ("S&P") affirmed an A+ credit rating. In March 2021, S&P affirmed its negative outlook for AWR. S&P's debt ratings range from AAA (highest possible) to D (obligation is in default).

AWR's (parent) borrowing activities (excluding letters of credit) for the years ended December 31, 2022 and 2021 were as follows:

| (in thousands, except percent)        | December 31, |            |
|---------------------------------------|--------------|------------|
|                                       | 2022         | 2021       |
| Balance Outstanding at December 31,   | \$ 255,500   | \$ 174,500 |
| Interest Rate at December 31,         | 5.07 %       | 0.78 %     |
| Average Amount Outstanding            | 213,758      | 139,926    |
| Weighted Average Annual Interest Rate | 2.56 %       | 0.91 %     |
| Maximum Amount Outstanding            | \$ 255,500   | \$ 174,500 |

All of the letters of credit are issued pursuant to the revolving credit facility. The revolving credit facility contains restrictions on prepayments, disposition of property, mergers, liens and negative pledges, indebtedness and guaranty obligations, transactions with affiliates, minimum interest coverage requirements, a maximum debt to capitalization ratio and a minimum debt rating. Pursuant to the credit agreement, AWR must maintain a minimum interest coverage ratio of 3.25 times interest expense, a maximum total funded debt ratio of 0.65 to 1.00 and a minimum debt rating from Moody's or S&P of Baa3 or BBB-, respectively. As of December 31, 2022, 2021 and 2020, AWR was in compliance with these covenants. As of December 31, 2022, AWR had an interest coverage ratio of 6.32 times interest expense, a debt ratio of 0.51 to 1.00 and a debt rating of A+ by S&P.

### **Note 3 — Income Taxes**

AWR (parent) receives a tax benefit for expenses incurred at the parent-company level. AWR (parent) also recognizes the effect of AWR's consolidated California unitary apportionment, which is beneficial or detrimental depending on a combination of the profitability of AWR's consolidated non-California activities as well as the proportion of its consolidated California sales to total sales.

### **Note 4 — Dividend from Subsidiaries**

Cash dividends in the amount of \$56.4 million, \$38.3 million and \$47.3 million were paid to AWR (parent) by its wholly owned subsidiaries during the years ended December 31, 2022, 2021 and 2020, respectively.

## CHANGE-IN-CONTROL AGREEMENT

This Change-in-Control Agreement (the "*Agreement*") dated as of February [ ], 2023, is entered into by and between \_\_\_\_\_ (the "*Executive*") and [Golden State Water Company][American States Utility Services, Inc.], a California corporation (the "*Company*").

### RECITALS

The Company believes that it is in the best interests of the Company, its shareholder and the shareholders of its parent, American States Water Company, a California corporation ("*AWR*"), to reinforce and encourage the continued attention and dedication of the Executive and to diminish inevitable distractions arising from the possibility of a Change in Control (as defined in Section 3). Accordingly, to assure the Company that it will have the Executive's undivided attention and services notwithstanding the possibility, threat or occurrence of a Change in Control, and to induce the Executive to remain in the employ of the Company, and for other good and valuable consideration, the Board of Directors of the Company has, at the recommendation of the Company's Compensation Committee, caused the Company to enter into this Agreement.

### TERMS AND CONDITIONS

The Executive and the Company hereby agree to the following terms and conditions:

#### 1. Term of Agreement

If a Change in Control (as defined in Section 3) occurs on or before the expiration date of this Agreement and while the Executive is still an employee of the Company, then this Agreement will continue in effect for two years from the date of such Change in Control and, if the Executive's employment with the Company is terminated within such two-year period, this Agreement shall thereafter continue in effect until all of the obligations of the Company under this Agreement shall have been fulfilled. If no Change in Control occurs on or before December 31, 2024, this Agreement shall expire; provided, however that this Agreement shall be automatically extended for an additional two years if: (i) a plan or agreement for a Change in Control has been approved by the Board of Directors of AWR, on or before the expiration date, or (ii) the Company has not delivered to Executive or Executive shall have not delivered to the Company written notice at least 60 days prior to the expiration date that such expiration date shall not be so extended. This Agreement shall continue to be automatically extended for an additional two-year period and each succeeding two-year period if a plan or agreement for a Change in Control has been approved by the Board of Directors of AWR, or the Company or the Executive fails to give notice by the time and in the manner described in this Section 1.

#### 2. Change in Control Date

The "*Change in Control Date*" shall mean the first date during the term of this Agreement on which a Change in Control (as defined in Section 3) occurs; provided, however, that if a Change in Control occurs and if the Executive's employment with the Company is terminated after approval by the Board of Directors of AWR of a plan or agreement for a Change in Control but prior to the date on which the Change in Control occurs, the "*Change in Control Date*" shall mean the date immediately preceding the date of such termination.

### 3. Change in Control

A “*Change in Control*” shall mean any of the following events:

- (a) any sale, lease, exchange or other change in ownership (in one or a series of transactions) of all or substantially all of the assets of AWR, unless its business is continued by another entity in which holders of AWR’s voting securities immediately before the event own, either directly or indirectly, more than seventy percent (70%) of the continuing entity’s voting securities immediately after the event;
- (b) any reorganization or merger of AWR, unless (i) the holders of AWR’s voting securities immediately before the event own, either directly or indirectly, more than seventy percent (70%) of the continuing or surviving entity’s voting securities immediately after the event, and (ii) at least a majority of the members of the Board of Directors of the surviving entity resulting from such reorganization or merger were members of the incumbent Board of Directors of AWR at the time of the execution of the initial agreement or of the action of such incumbent Board of Directors providing for such reorganization or merger;
- (c) an acquisition by any person, entity or group acting in concert of more than fifty percent (50%) of the voting securities of AWR, unless the holders of AWR’s voting securities immediately before the event own, either directly or indirectly, more than seventy percent (70%) of the acquirer’s voting securities immediately after the acquisition;
- (d) the consummation of a tender offer or exchange offer by any individual, entity or group which results in such individual, entity or group beneficially owning (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934 twenty-five percent (25%) or more of the voting securities of AWR, unless the tender offer is made by AWR or any of its subsidiaries or the tender offer is approved by a majority of the members of the Board of Directors of AWR who were in office at the beginning of the twelve month period preceding the commencement of the tender offer; or
- (e) a change of one-half or more of the members of the Board of Directors of AWR within a twelve-month period, unless the election or nomination for election by shareholders of new directors within such period constituting a majority of the applicable Board was approved by a vote of at least two-thirds (2/3) of the directors then still in office who were in office at the beginning of the twelve-month period.

### 4. Effective Period

For the purpose of this Agreement, the “*Effective Period*” is the period commencing on the Change in Control Date and ending on the date that is twenty-four months thereafter.

### 5. Termination of Employment

(a) **Death or Disability:** The Executive’s employment shall terminate automatically upon the Executive’s death. If the Disability (as defined below) of the Executive occurs during the Effective Period, the Company may give the Executive written notice of its intention to terminate the Executive’s employment. In such event, the Executive’s employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the “*Disability Effective Date*”), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of his or her duties. For purposes

of this Agreement, "**Disability**" shall mean the absence of the Executive from his or her duties with the Company on a full-time basis for 180 consecutive business days as a result of a physical or mental condition which prevents the Executive from performing the Executive's normal duties of employment and which is (i) determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative and/or (ii) entitles the Executive to the payment of long-term disability benefits from the Company's or AWR's long-term disability plan commencing no later than the Disability Effective Date.

(b) **Cause:** The Company may terminate the Executive's employment other than for Cause or Disability during the Effective Period. The Company may also terminate the Executive's employment during the Effective Period for Cause. For purposes of this Agreement, "**Cause**" shall be limited to the following:

- (i) the Executive's failure to render services to the Company where such failure amounts to gross neglect or gross misconduct of the Executive's responsibility and duties,
- (ii) the Executive's commission of an act of fraud or dishonesty against the Company or any affiliate of the Company, or
- (iii) the Executive's conviction of a felony or other crime involving moral turpitude.

(c) **Good Reason:** The Executive's employment may be terminated by the Executive during the Effective Period for Good Reason. For purposes of this Agreement, "**Good Reason**" shall mean:

- (i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the Change in Control Date, or any other action by the Company or AWR which results in a diminution in such position, authority, duties or responsibilities;
- (ii) any failure by the Company or AWR to reappoint the Executive to a position held by the Executive on the Change in Control Date, except as a result of the termination of the Executive's employment by the Company for Cause or Disability, the death of the Executive, or the termination of the Executive's employment by the Executive other than for Good Reason;
- (iii) reduction by the Company or AWR in the Executive's base salary in effect on the date hereof or as the same may be increased from time-to-time;
- (iv) (A) elimination by the Company or AWR of any cash incentive or other cash bonus compensation plan, without providing substantially equivalent substitutes therefor, or (B) any modification of the terms thereof, that would (in the case of either clause (A) or (B)) substantially diminish (in the aggregate, taking into consideration changes in salary, etc.) the aggregate amount of the base salary and cash incentive or other cash bonus and equity incentives or other equity-based compensation that is reasonably expected to be earned by the Executive during any calendar year from the aggregate amount that would

reasonably have been expected to be earned by the Executive, assuming the maintenance of the cash incentive or cash bonus compensation plan or plans in effect on the Change in Control Date;

(v) (A) elimination by the Company or AWR of any equity incentive or other equity-based compensation plan, without providing substantially equivalent substitutes therefor, or (B) any modification of the terms thereof that would (in the case of either clause (A) or (B)) substantially diminish (in the aggregate, taking into consideration changes in salary, etc.) the aggregate amount of the base salary, cash incentive or cash bonus and equity incentive or other equity-based compensation that is reasonably expected to be earned by the Executive during any calendar year from the aggregate amount that would reasonably have been expected to be earned by the Executive, assuming the maintenance of the equity incentive or other equity-based compensation plan or plans in effect on the Change in Control Date.

(vi) the taking of any action by the Company or AWR (including the elimination of benefit plans without providing substitutes therefor or the reduction of the Executive's benefits thereunder) that would substantially diminish the aggregate value of the Executive's other fringe benefits, including the executive benefits and perquisites, from the levels in effect prior to the Change in Control Date;

(vii) the Company or AWR provides written notice to the Executive that the Executive will be based at any office or location which increases the distance from the Executive's home to the office location by more than 35 miles from the distance in effect as of the Change in Control Date; and

(viii) any failure by the Company or AWR to comply with and satisfy Section 11(c) of this Agreement;

which condition in any event under (i)-(viii) is not cured within twenty (20) days after written notice to the Company from the Executive. Executive shall provide notice of intent to terminate employment citing Good Reason not later than thirty (30) business days after an initial occurrence of a condition that Executive purports to constitute Good Reason, which termination shall be effective no later than twenty-one (21) days thereafter, unless otherwise cured.

## 6. Obligations of the Company upon Termination

(a) **Good Reason, Other Than for Cause or Disability:** If the Company shall terminate the Executive's employment other than for Cause or Disability during the Effective Period, or the Executive shall terminate employment for Good Reason during the Effective Period, the Company and AWR agree, subject to Sections 6(e) and 8, to make the payments and provide the benefits described below:

(i) The Company or AWR shall pay to the Executive in a cash lump sum within 10 days from the date of the Executive's termination of employment (the "*Date of Termination*"), an amount equal to the product of (A) and (B), where (A) is [2.99 or 2.0] and (B) is calculated as the sum of (i) the Executive's annual base salary at the highest rate in effect in any year of the three calendar years immediately preceding the date of termination of employment, including the

calendar year in which the termination of employment occurred; plus (ii) the payments that would have been made to the Executive pursuant to any “cash-pay” performance incentive plan of the Company or AWR (a “*Cash Incentive Payment*”) with respect to the calendar year in which termination of employment occurred (and assuming that the performance targets thereafter are achieved “at target”); and provided that if the Executive is employed pursuant to any written employment agreement, the Cash Incentive Payment in any year for purposes of calculations under this clause (ii) shall not be less than any minimum incentive or annual cash bonus required thereunder; provided that Cash Incentive Payments do not include (A) any extraordinary bonus, including any holiday, year-end, anniversary or signing bonus; (B) any amounts paid or to be paid to the Executive under this Agreement, (C) reimbursement of moving or other expenses; or (D) any other lump sum payment, unless specifically designated as a Cash Incentive Payment pursuant to an incentive plan of the Company or AWR by the Board of Directors of AWR or the Company, or any committee thereof. Unless otherwise provided pursuant to the terms of the cash incentive compensation plan of AWR or the Company or the terms of the award, the amount paid to the Executive pursuant to this Section 6(a)(i) shall be in lieu of any Cash Incentive Payment to which the Executive would otherwise be entitled under any cash incentive plan of the Company or AWR for the year in which the Executive’s employment is terminated as a result of a Change in Control.

(ii) The Company or AWR shall also pay to the Executive in a cash lump sum within 10 days from the date of the Executive’s termination of employment, an amount equal to the sum of (A) the Executive’s base salary through the date of termination, plus (B) any accrued vacation pay, in each case to the extent not theretofore paid (the amounts referred to in this paragraph (ii) are hereinafter referred to as the “*Accrued Obligations*”).

(iii) For executives who were hired before January 1, 2011 and are participants of the Golden State Water Company Pension Plan, the Company or AWR shall also pay the Executive in cash at the end of each four-month period during the twelve-months immediately following the date of the Executive’s termination of employment, an amount equal to the excess of (A) over (B), divided by three, where (A) is equal to the single sum actuarial equivalent of what would be the Executive’s accrued benefits under the terms of the Golden State Water Company Pension Plan, or any successor thereto, including the Golden State Water Company Supplemental Executive Retirement Plan and any other supplemental retirement plan providing pension benefits (hereinafter together referred to as the “*Pension Plan*”) at the time of the Executive’s termination of employment, without regard to whether such benefits would be vested thereunder, if the Executive were credited with an additional three years of credited service (as defined in the Pension Plan), and (B) is equal to the single sum actuarial equivalent of the Executive’s vested accrued benefits under the Pension Plan at the time of the Executive’s termination of employment; provided, however, that the Corporation shall only be required to make any such payments for so long as the Executive has not breached the covenants contained in Section 9. For purposes of this paragraph (iii), the term “single sum actuarial equivalent” shall, be the lump sum value of the annuity (immediate for Executives age 55 or over, and deferred to age 55 for Executives under age 55) determined (I) using an interest rate calculated at (x) the sum of the monthly rates prevailing for the twelve full months prior to the termination of employment, for the second segment rates

published pursuant to Section 417(e)(3)(D) of the Code, (y) divided by 12; and (II) using the applicable mortality table under Section 417(e)(3)(B) of the code for the plan year of termination, after the reduction (if any), of the Executive's accrued benefit, using the applicable factors under the terms of the Golden State Water Company Pension Plan (hereinafter referred to as the "*Qualified Pension Plan*") (Regular Factors under Section A.4, or Special Early Retirement Factors under Section A.4 if the Executive has 80 points, including the three additional years of service provided under this agreement), and using the Executive's age upon termination of employment. Any payment under this paragraph (iii) shall not extinguish any rights the Executive has to benefits under the Pension Plan.

For Executives who were hired after December 31, 2010 and who are not participants of the Golden State Water Company Pension Plan, the Company or AWR shall also pay the Executive in cash at the end of each four-month period during the twelve-months immediately following the date of the Executive's termination of employment, an amount equal to the sum of (A) plus (B) plus (C), divided by three, where (A) is equal to the Profit Sharing Contributions that would have been contributed on the Executive's behalf under the Golden State Water Company Investment Incentive Program, or any successor thereto (hereinafter referred to as the "*DC Plan*"), during the three years immediately following the date of the Executive's termination of employment, determined (i) as if the Executive earned Compensation (as defined in the DC Plan) during such period at a rate equal to the Executive's Compensation for the plan year in which such termination date occurs (without taking into account any reduction in Compensation that constitutes Good Reason), and (ii) without regard to any amendment to the DC Plan made subsequent to a Change in Control on or prior to the date of the Executive's termination of employment, which amendment adversely affects in any manner the computation of benefits thereunder; where (B) is equal to the excess of (x) the Executive's account balance under the DC Plan at the time of the Executive's termination of employment, without regard to whether such benefits would be vested thereunder, over (y) the portion of such account balance that is vested and nonforfeitable under the terms of the DC Plan; and where (C) is equal to the excess of (x) the single sum actuarial equivalent of what would be the Executive's accrued benefits under the terms of the Golden State Water Company Supplemental Executive Retirement Plan, or any successor thereto providing supplemental retirement benefits (hereinafter referred to as the "*SERP*") at the time of the Executive's termination of employment, without regard to whether such benefits would be vested thereunder, if the Executive were credited with an additional three years of Credited Service (as defined in the SERP), over (y) the single sum actuarial equivalent of the Executive's vested accrued benefits under the SERP at the time of the Executive's termination of employment; provided, however, that the Corporation shall only be required to make any such payments described in clauses (A), (B) and (C) above for so long as the Executive has not breached the covenants contained in Section 9. For purposes of clause (C) of this paragraph (iii), the term "single sum actuarial equivalent" shall, be the lump sum value of the annuity (immediate for Executives age 55 or over, and deferred to age 55 for Executives under age 55) determined (I) using an interest rate calculated at (x) the sum of the monthly rates prevailing for the twelve full months prior to the termination of employment, for the second segment rates published pursuant to Section 417(e)(3)(D) of the Code, (y) divided by 12; and; and (II) using the applicable mortality table under Section 417(e)(3)(B) of the Code for the plan year of termination, after the reduction (if



any), of the Executive's accrued benefit, using the applicable factors under the terms of the "Qualified Pension Plan (Regular Factors under Section A.4, or Special Early Retirement Factors under Section A.4 if the Executive has 80 points, including the three additional years of service provided under this Agreement), and using the Executive's age upon termination of employment. Any payment under this paragraph (iii) shall not extinguish any rights the Executive has to benefits under the DC Plan or the SERP.

(iv) For [three years for CEO and CFO] two years after the date of the Executive's termination of employment, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue to provide medical, dental, vision, accidental death and dismemberment, and life insurance coverage, and reimbursement of club dues to the Executive and/or the Executive's family at least equal to those which would have been provided to them if the Executive's employment had not been terminated (in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliates applicable generally to other peer executives and their families immediately preceding the date of the Executive's termination of employment); provided, however, that if the Executive becomes employed by another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for any retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until [three years for CEO and CFO] two years after the date of termination of employment and to have retired on the last day of such period. Following the period of continued benefits referred to in this subsection, the Executive and the Executive's covered family members shall be given the right provided in Section 4980B of the Internal Revenue Code of 1986 (the "Code") to elect to continue benefits in all group medical plans. In the event that the Executive's participation in any of the plans, programs, practices or policies of the Company referred to in this subsection is barred by the terms of such plans, programs, practices or policies or applicable law, the Company shall provide the Executive with benefits substantially similar to those which the Executive would be entitled as a participant in such plans, programs, practices or policies. At the end of the period of coverage, the Executive shall have the option to have assigned to the Executive, at no cost and with no apportionment of prepaid premiums, any assignable insurance policy owned by the Company and relating specifically to the Executive.

(v) The Company and AWR shall enable the Executive to purchase within 10 days following the Executive's termination of employment, the automobile, if any, provided by the Company for the Executive's use at the time of the Executive's termination of employment at the wholesale value of such automobile at such time, as shown in the current edition of the National Auto Research Publication Blue Book.

(vi) To the extent not theretofore paid or provided, the Company or AWR shall timely pay or provide the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy, practice, contract or agreement of the Company and its

affiliates (such other amounts and benefits being hereinafter referred to as “*Other Benefits*”) in accordance with the terms of such plan, program, policy, practice, contract or agreement.

(vii) The Executive shall be entitled to interest on any payments not paid on a timely basis as provided in this Section 6(a) at the applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

(viii) Each stock option granted to an Executive under any stock incentive plan of AWR or the Company shall be deemed fully vested immediately prior to the date of termination and each restricted stock or other award under any stock incentive plan of AWR or the Company shall immediately vest free of restrictions and become payable upon the date of termination (or to the extent applicable under Section 409A, in accordance with Section 6(e)). If the number of shares payable under any such option or award is dependent upon future results or performance, the number shall be determined and established at an assumed result or performance that achieves targeted amounts therefore.

(b) **Death:** If the Executive’s employment is terminated by reason of the Executive’s death during the Effective Period, this Agreement shall terminate without further obligations to the Executive’s legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive’s estate or beneficiary, as applicable, in a cash lump sum within 10 days of the date of the Executive’s death.

(c) **Disability:** If the Executive’s employment is terminated by reason of the Executive’s Disability during the Effective Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a cash lump sum within 10 days of the Executive’s termination of employment.

(d) **Cause, Other than for Good Reason:** If the Executive’s employment shall be terminated for Cause during the Effective Period or, if the Executive voluntarily terminates employment during the Effective Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and any benefits payable to the Executive under a plan, policy, practice, etc., referred to in Section 7 below. Accrued Obligations shall be paid to the Executive in a cash lump sum within 10 days of the Executive’s termination of employment.

(e) **Six-Month Delay.** Notwithstanding any other provisions of the Agreement, any payment or benefit otherwise required to be made after the Executive’s termination of employment that the Company reasonably determines is subject to Section 409A(a)(2)(B)(i) of the Code, shall not be paid or payment commenced until the later of (i) six months after the date of the Executive’s “separation from service” (within the meaning of Section 409A of the Code and Treasury Regulations Section 1.409A-1(h) without regard to optional alternative definitions available thereunder) and (ii) the payment date or commencement date specified in the Agreement for such payment(s). With respect to any benefit that the Company cannot provide during the six-month period following the Executive’s separation from service pursuant to the preceding sentence, the Executive shall pay the cost or premium for such benefit during such period and be reimbursed by the Company therefor. On the earliest date on which such payments can be made or commenced without violating the requirements of Section 409A(a)(2)(B)(i) of the Code, the Executive shall be paid, in a single cash lump sum, an amount

equal to the aggregate amount of all payments delayed pursuant to this Section 6(e), including reimbursement for any premiums paid by the Executive as a result of the delay.

#### 7. Non-Exclusivity of Rights

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliates and for which the Executive may qualify, nor, subject to Sections 6(e) and 19, shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliates. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice, program, contract or agreement with the Company or any of its affiliates at or subsequent to the date of termination of the Executive's employment shall be payable in accordance with such plan, policy, practice, program, contract or agreement except as explicitly modified by this Agreement.

#### 8. Best After-Tax Position

(a) If it is determined that any amount or benefit to be paid or payable to the Executive under this Agreement (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) would give rise to liability of the Executive for the excise tax imposed by Section 4999 of the Code or any successor provision (the "*Excise Tax*"), then the amount or benefits payable to the Executive (the total value of such amounts or benefits, the "*Payments*") shall be reduced by the Company to the extent necessary so that no portion of the Payments to the Executive is subject to the Excise Tax; provided, however, such reduction shall be made only if it results in Executive retaining a greater amount of Payments on an after-tax basis (taking into account the Excise Tax and applicable federal, state, and local income and payroll taxes). In the event Payments are required to be reduced pursuant to this Section 8(a), they shall be reduced in the following order of priority in a manner consistent with Section 409A: (i) first from cash compensation, (ii) next from equity compensation, in each case in reverse chronological order of scheduled distribution.

(b) In making any determination as to whether the Payments would be subject to an Excise Tax, consideration shall be given to whether any portion of the Payments could reasonably be considered, based on the relevant facts and circumstances, to be reasonable compensation for services rendered (whether before or after the consummation of the applicable Change in Control).

(c) In the event that upon any audit by the Internal Revenue Service, or by a state or local taxing authority, of the Payments, a change is formally determined to be required in the amount of taxes paid by, or Payments made to, the Executive, appropriate adjustments will be made under this Agreement such that the net amount that is payable to the Executive after taking into account the provisions of Code Section 4999 will reflect the intent of the parties as expressed in this Section 8.

#### 9. Non-Compete

(a) Executive agrees not to engage in any Competitive Activity until one year after the Date of Termination. For purposes of this Agreement, the term "*Competitive Activity*"

shall mean Executive's participation as an employee or consultant, without the written consent of the Company's Chief Executive Officer or the Board of Directors of AWR or any authorized committee thereof, in the management of any business enterprise anywhere in the world if such enterprise is a "Significant Customer" of any product or service of the Company or engages in competition with any product or service of the Company or is planning to engage in such competition. For purposes of this Agreement, the term "*Significant Customer*" shall mean any customer who represents in excess of 5% of the Company's sales in any of the three calendar years prior to the date of determination, but shall not include the United States Government or any branch, agency or department thereof. "*Competitive Activity*" shall not include the mere ownership of, and exercise of rights appurtenant to, securities of a publicly-traded company representing 5% or less of the total voting power and 5% or less of the total value of such an enterprise. Executive agrees that the Company is a national business and that it is appropriate for this Section 9 to apply to Competitive Activity conducted anywhere in the United States of America.

(b) Executive shall not directly or indirectly, either on Executive's own account or with or for anyone else, (i) solicit or attempt to solicit any of the Company's customers, (ii) solicit or attempt to solicit for any business endeavor any employee of the Company, provided, however, that such limitations will not prohibit Executive, directly or indirectly, either on Executive's own account or with or for anyone else, from placing public advertisements or conducting any other form of general solicitation that is not specifically targeted towards employees of the Company, and hiring any employee of the Company that responds to such solicitation, (iii) except as permitted by clause (ii) in response to a general solicitation, hire or attempt to hire any employee of the Company, or (iv) otherwise divert or attempt to divert from the Company any business whatsoever or interfere with any business relationship between the Company and any other person, until one (1) year after the Date of Termination.

(c) Executive acknowledges and agrees that damages in the event of a breach or threatened breach of the covenants in this Section 9 will be difficult to determine and will not afford a full and adequate remedy, and therefore agree that the Company, in addition to seeking actual damages pursuant to Section 9 hereof, may seek specific enforcement of the covenant not to compete in any court of competent jurisdiction, including, without limitation, by the issuance of a temporary or permanent injunction, without the necessity of a bond. Executive and the Company agree that the provisions of this covenant not to compete are reasonable. However, should any court or arbitrator determine that any provision of this covenant not to compete is unreasonable, either in period of time, geographical area, or otherwise, the parties agree that this covenant not to compete should be interpreted and enforced to the maximum extent which such court or arbitrator deems reasonable.

## 10. Full Settlement

The obligation of the Company to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 6(a)(iv), such amounts shall not be reduced whether or not the Executive obtains other employment.

## 11. Successors

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, the "*Company*" shall mean the Company as defined and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise, and "*AWR*" shall mean AWR as defined and any successor to its business and/or assets by operation of law or otherwise.

## 12. Arbitration

(a) Because it is agreed that time will be of the essence in determining whether any payments are due to the Executive under this Agreement, the Executive may submit any claim for payment under this Agreement or dispute regarding the interpretation of this Agreement to arbitration. This right to select arbitration shall be solely that of the Executive, and the Executive may decide whether or not to arbitrate in his or her discretion. The "right to select arbitration" is not mandatory on the Executive, and the Executive may choose in lieu thereof to bring an action in an appropriate civil court. Once arbitration is commenced, however, it may not be discontinued without the mutual consent of both parties to the arbitration. During the lifetime of the Executive only he or she can use the arbitration procedure set forth in this section.

(b) Any claim for arbitration may be submitted as follows: If the Executive disagrees with the Company regarding the interpretation of this Agreement and the claim is finally denied by the Company in whole or in part, such claim may be filed in writing with an arbitrator of the Executive's choice who is selected by the method described in the next three sentences. The first step of the selection shall consist of the Executive submitting a list of 5 potential arbitrators to the Company. Each of the five arbitrators must be either (1) a member of the National Academy of Arbitrators located in the State of California or (2) a retired California Superior Court or Appellate Court judge. Within 2 weeks after receipt of the list, the Company shall select one of the five arbitrators as the arbitrator for the dispute in question. If the Company fails to select an arbitrator in a timely manner, the Executive shall then designate one of the five arbitrators as the arbitrator for the dispute in question.

(c) The arbitration hearing shall be held within 30 days (or as soon thereafter as possible) after the picking of the arbitrator. No continuance of the hearing shall be allowed without the mutual consent of the Executive and the Company. Absence from or nonparticipation at the hearing by either party shall not prevent the issuance of an award. Hearing procedures which will expedite the hearing may be ordered at the arbitrator's discretion, and the arbitrator may close the hearing at his or her discretion when sufficient evidence to satisfy issuance of an award has been presented.

(d) The arbitrator's award shall be rendered as expeditiously as possible and in no event later than 30 days after the close of the hearing. In the event the arbitrator finds that the Company has breached this Agreement, he or she shall order the Company to immediately

take the necessary steps to remedy the breach. The award of the arbitrator shall be final and binding upon the parties. The award may be enforced in any appropriate court as soon as possible after it is rendered. If an action is brought to confirm the award, the Company and the Executive agree that no appeal shall be taken by either party from any decision rendered in such action.

(e) Each party will pay the fees of their respective attorneys, the expenses of their witnesses, costs of any record or transcript of the arbitration, and any other expenses connected with the arbitration that such party might be expected to incur had the dispute been subject to resolution in court, but all costs of the arbitration that would not be incurred by the parties if the dispute was litigated in court, including fees of the arbitrator and any arbitration association administrative fees will be paid by the Company.

### **13. Governing Law**

The laws of California shall govern the validity and interpretation of this Agreement, with regard to any state's conflicts of laws principles.

### **14. Captions**

The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

### **15. Amendment**

This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

### **16. Notices**

All notices and other communications regarding this Agreement shall be in writing and shall be hand delivered to the other party or sent by prepaid registered or certified mail, return receipt requested, addressed as follows:

If to the Executive: at the address on file with the Company's HR department

If to the Company: Golden State Water Company  
630 E. Foothill Blvd  
San Dimas, CA 91773

or to such other address as either party shall have furnished to the other in writing. Notice and communications shall be effective when actually received by the addressee.

### **17. Severability**

The lack of validity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

**18. Withholding Taxes**

The Company may withhold required federal, state, local or foreign taxes from any amounts payable under this Agreement.

**19. No Waiver**

The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have under this Agreement, including, without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right under this Agreement.

**20. At-Will Employment**

The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company prior to the Change in Control Date is "at will" and, prior to the Change in Control Date, the Executive's employment may be terminated by either the Executive or the Company at any time, in which case the Executive shall have no further rights under this Agreement. From and after the Change in Control Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

**21. Counterparts**

This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same Agreement.

**22. Section 409A**

It is intended that any amounts payable under this Agreement shall either be exempt from Section 409A of the Code or shall comply with Section 409A (including Treasury regulations and other published guidance related thereto) so as not to subject the Executive to payment of any additional tax, penalty or interest imposed under Section 409A of the Code. Each payment in a series of payments hereunder shall be deemed to be a separate payment for purposes of Section 409A of the Code. The provisions of this Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Section 409A of the Code yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Executive.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first written above in San Dimas, California.

**[GOLDEN STATE WATER COMPANY]  
[AMERICAN STATES UTILITY SERVICES, INC.]**

By \_\_\_\_\_  
Title President & Chief Executive Officer

**EXECUTIVE**

\_\_\_\_\_



**AMENDED AND RESTATED**  
**INDEMNIFICATION AGREEMENT**

This Amended and Restated Indemnification Agreement ("**Agreement**") is made as of May \_\_, 2021 by and between American States Water Company, a California corporation ("**Company**"), and [\_\_\_\_\_] ("**Indemnitee**"), a [director/officer] of the Company. This Agreement fully amends, restates and supersedes any prior indemnification agreement between the Company and any of its Subsidiaries and Indemnitee [including without limitation the Indemnification Agreement dated \_\_\_\_\_.]

**R E C I T A L S**

A. Indemnitee is currently serving as a [director/officer] of the Company and each of the following direct or indirect wholly-owned subsidiaries of the Company: Golden State Water Company, a California corporation, [American States Utility Services, Inc., a California corporation, Fort Bliss Water Services Company, a Texas corporation, Old Dominion Utility Services, Inc., a Virginia corporation, Terrapin Utility Services, Inc., a Maryland corporation, Palmetto State Utility Services, Inc., a South Carolina corporation, Old North Utility Services, Inc., a North Carolina corporation, Emerald Coast Utility Services, Inc., a Florida corporation, Fort Riley Utility Services, Inc., a Kansas corporation and California Cities Water Company, a California corporation (the "**Existing Subsidiaries**") and in such capacity has rendered valuable services to the Company. The Existing Subsidiaries and any other direct or indirect subsidiary of the Company, whether now existing or hereafter created, for which Indemnitee serves as a director or officer are collectively referred to as the "**Subsidiaries**".

B. The Company may from time to time request Indemnitee to serve as a director of other Subsidiaries.

C. Both the Company and Indemnitee recognize the increased risk of litigation and other claims being asserted against directors and officers of public companies.

D. The board of directors of the Company (the "**Board**") has determined that enhancing the ability of the Company to retain and attract as directors and officers the most capable persons is in the best interests of the Company and that the Company therefore should seek to assure such persons that indemnification and insurance coverage is available.

E. In recognition of the need to provide Indemnitee with substantial protection against personal liability, in order to procure Indemnitee's continued service as a director and/or officer of the Company or its Subsidiaries and to enhance Indemnitee's ability to serve the Company in an effective manner, and in order to provide such protection pursuant to express contract rights (intended to be enforceable irrespective of, among other things, any amendment to the Company's Articles of Incorporation or Bylaws (collectively, the "**Constituent Documents**"), any change in the composition of the Board or any change in control or business combination transaction relating to the Company), the Company wishes to provide in this Agreement for the indemnification of, and the advancement of Expenses (as defined in Section 1(f) below) to, Indemnitee as set forth in this Agreement and for the continued coverage of the Indemnitee under the Company's directors' and officers' liability insurance policies.

F. This Agreement is a supplement to and in furtherance of the Constituent Documents of the Company and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

G. Indemnitee does not regard the protection available under the Constituent Documents and insurance as adequate in the present circumstances, and may not be willing to serve as a [director/officer] without adequate protection, and the Company desires Indemnitee to serve in such capacity. Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that [s/he] be so indemnified.

#### AGREEMENT

NOW, THEREFORE, in consideration of the continued services of the Indemnitee and in order to induce the Indemnitee to continue to serve as a [director/officer] of the Company and the Existing Subsidiaries and any other Subsidiary, the Company and the Indemnitee do hereby agree as follows:

1. **Definitions.** As used in this Agreement:

(a) "Beneficial Owner" has the meaning given to the term "beneficial owner" in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(b) "CCC" means the California Corporations Code as it may be amended from time to time.

(c) "Change in Control" means the occurrence after the date of this Agreement of any of the following events:

1. any sale, lease, exchange or other change in ownership (in one or a series of transactions) of all or substantially all of the assets of the Company, unless its business is continued by another entity in which holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than seventy percent (70%) of the continuing entity's voting securities immediately after the event;
2. any reorganization or merger of the Company, unless (i) the holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than seventy percent (70%) of the continuing or surviving entity's voting securities immediately after the event, and (ii) at least a majority of the members of the Board of the surviving entity resulting from such reorganization or merger were members of the incumbent Board of the Company at the time of the execution of the initial agreement or of the action of such incumbent Board providing for such reorganization or merger;
3. an acquisition by any person, entity or group acting in concert of more than fifty percent (50%) of the voting securities of the Company, unless the holders of the Company's voting securities immediately before the event own, either directly or indirectly, more than seventy percent (70%) of the acquirer's voting securities immediately after the acquisition;
4. the consummation of a tender offer or exchange offer by any individual, entity or group which results in such individual, entity or group becoming the Beneficial Owner of twenty-five percent (25%) or more of the voting securities of the Company, unless the tender offer is made by the Company or any of its subsidiaries or the tender offer is approved by a majority of the members of the Board of the Company who

were in office at the beginning of the twelve month period preceding the commencement of the tender offer; or

5. a change of one-half or more of the members of the Board of Directors of the Company within a twelve-month period, unless the election or nomination for election by shareholders of new directors within such period constituting a majority of the applicable Board was approved by a vote of at least two-thirds (2/3) of the directors then still in office who were in office at the beginning of the twelve month period.

(d) **"Corporate Status"** describes the status of a person who is or was a director, officer, employee, agent or fiduciary of the Company or of any other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving at the express written request or implied authorization of the Company.

(e) **"Disinterested Director"** means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(f) **"Expenses"** shall include, without limitation, all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness in a Proceeding, or responding to, or objecting to, a request to provide discovery in any Proceeding. Expenses also shall include Expenses incurred in connection with any appeal or injunctive relief resulting from any Proceeding and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, including without limitation the premium, security for, and other costs relating to any cost bond, supersede as bond, or other appeal bond or its equivalent. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(g) **"Independent Counsel"** means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement or to whom Indemnitee shall reasonably object. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(h) **"Person"** means any individual, corporation, firm, partnership, joint venture, limited liability company, estate, trust, business association, organization, governmental entity or other entity and includes the meaning set forth in Sections 13(d) and 14(d) of the Exchange Act.

(i) **"Proceeding"** includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether civil, criminal, administrative or investigative, in which Indemnitee was, is or will be involved as a party or otherwise, by reason of his or her Corporate Status, by reason of any action taken by him or her or of any inaction on his or her part while acting in his or her Corporate Status; in each case whether or not he or she is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement; including one pending on or before the date of this Agreement, but excluding one initiated by an Indemnitee to enforce his or her rights under this Agreement.

(j) **"Voting Securities"** means any securities of the Company that vote generally in the election of directors.

6. **Agreement to Serve.** In reliance on this Agreement, the Indemnitee agrees to continue to serve as a director and/or officer of the Company and/or one or more of its Subsidiaries, for so long as the Indemnitee is duly elected or appointed or until such time as the Indemnitee tenders the Indemnitee's resignation in writing or is removed from all positions as a director of the Company and/or its Subsidiaries. This Agreement shall not be deemed an employment agreement between the Company (or any of its Subsidiaries) and Indemnitee.

7. **Indemnification.** The Company hereby agrees to hold harmless and indemnify Indemnitee to the fullest extent permitted by law, as such laws may be amended from time to time. In furtherance of the foregoing indemnification, and without limiting the generality thereof:

(a) **Proceedings Other Than Proceedings by or in the Right of the Company.** So long as either (i) the Company determines pursuant to Section 317(e) of the CCC that Indemnitee has acted in good faith and in a manner that Indemnitee reasonably believed to be in the best interest of the Company (and that in the case of a criminal Proceeding, Indemnitee had no reasonable cause to believe that such conduct was unlawful), or (ii) Indemnitee has already been successful on the merits in such a Proceeding, Indemnitee shall be entitled to the rights of indemnification provided in this Section 3(a) if, by reason of his or her Corporate Status, Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding (as hereinafter defined) other than a Proceeding by or in the right of the Company. Subject to the limitations in this Section 3(a), Indemnitee shall be indemnified against all Expenses (as hereinafter defined), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him or her, or on his or her behalf, in connection with such Proceeding or any claim, issue or matter therein.

(b) **Proceedings by or in the Right of the Company.** Indemnitee shall be entitled to the rights of indemnification provided in this Section 3(b) if, by reason of his or her Corporate Status, the Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding brought by or in the right of the Company. Pursuant to this Section 3(b), Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by the Indemnitee, or on the Indemnitee's behalf, in connection with such Proceeding if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; provided, however, if applicable law so provides, no indemnification against such Expenses shall be made in respect of any claim, issue or matter in such Proceeding as to which Indemnitee shall have been ultimately determined to be liable to the Company unless and to the extent that a California state court shall determine that such indemnification may be made.

(c) **Indemnification for Expenses of a Party Who is Wholly or Partly Successful.** Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his or her Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, he or she shall be indemnified to the maximum extent permitted by law, as such laws may be amended from time to time, against all Expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or her or on his or her behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

(d) **Indemnification for Expenses of a Witness.** Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his or her Corporate Status, a witness, or is made (or asked) to respond to discovery requests, in any Proceeding to which Indemnitee is not a party, he or she shall be indemnified against all Expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith.

4. **Conclusive Presumption Regarding Standards of Conduct.** The Indemnitee shall be conclusively presumed to have met the relevant standards of conduct, if any, as defined by California law, for indemnification pursuant to this Agreement, unless a determination is made that the Indemnitee has not met such standards (i) by the Board by a majority vote of a quorum thereof consisting of directors who were not parties to the Proceeding for which a claim is made under this Agreement, (ii) by the shareholders of the Company by majority vote of a quorum thereof consisting of shareholders who are not parties to the Proceeding due to which a claim is made under this Agreement, (iii) in a written opinion by Independent Counsel, the selection of whom has been approved by the Indemnitee in writing, or (iv) by a court of competent jurisdiction. Further, in any litigation, arbitration or other proceeding to enforce Indemnitee's rights under this Agreement, no determination by the Board, shareholders or Independent Counsel that Indemnitee did not meet the applicable standards of conduct shall create a presumption for the purpose of such proceeding that Indemnitee has not met the applicable standards of conduct.

8. **Advances of Expenses.** Indemnitee shall have the right to advancement by the Company, prior to the final disposition of any Proceeding by final adjudication to which there are no further rights of appeal, of any and all Expenses actually and reasonably paid or incurred by Indemnitee in connection with any Proceeding arising out of Indemnitee's Corporate Status. Indemnitee's right to such advancement is not subject to the satisfaction of any standard of conduct. Without limiting the generality or effect of the foregoing, within thirty (30) days after any request by Indemnitee, the Company shall, in accordance with such request, (a) pay such Expenses on behalf of Indemnitee, (b) advance to Indemnitee funds in an amount sufficient to pay such Expenses, or (c) reimburse Indemnitee for such Expenses. In connection with any request for Expense advances, Indemnitee shall not be required to provide any documentation or information to the extent that the provision thereof would undermine or otherwise jeopardize attorney-client privilege. In connection with any request for Expense advances, Indemnitee shall execute and deliver to the Company an undertaking (which shall be accepted without reference to Indemnitee's ability to repay the Expense advances), to repay any amounts paid, advanced, or reimbursed by the Company for such Expenses to the extent that it is ultimately determined, following the final disposition of such Proceeding, that Indemnitee is not entitled to

indemnification hereunder. Indemnitee's obligation to reimburse the Company for Expense advances shall be unsecured and no interest shall be charged thereon.

9. **Notification and Defense of Proceedings.**

(a) **Notification of Proceedings.** Indemnitee shall notify the Company in writing as soon as practicable of any Claim which could relate to a Proceeding or for which Indemnitee could seek Expense advances, including a brief description (based upon information then available to Indemnitee) of the nature of, and the facts underlying, such Proceeding. The failure by Indemnitee to timely notify the Company hereunder shall not relieve the Company from any liability hereunder unless and to the extent the Company's ability to participate in the defense of such claim was materially and adversely affected by such failure. If at the time of the receipt of such notice, the Company has directors' and officers' liability insurance in effect under which coverage for Proceedings is potentially available, the Company shall give prompt written notice to the applicable insurers in accordance with the procedures set forth in the applicable policies. The Company shall provide to Indemnitee a copy of such notice delivered to the applicable insurers, and copies of all subsequent correspondence between the Company and such insurers regarding the Proceeding, in each case substantially concurrently with the delivery or receipt thereof by the Company.

(b) **Defense of Proceedings.** The Company shall be entitled to participate in the defense of any Proceeding at its own expense and, except as otherwise provided below, to the extent the Company so wishes, it may assume the defense thereof with counsel reasonably satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election to assume the defense of any such Proceeding, the Company shall not be liable to Indemnitee under this Agreement or otherwise for any Expenses subsequently directly incurred by Indemnitee in connection with Indemnitee's defense of such Proceeding other than reasonable costs of investigation, serving as a witness or as otherwise provided below. Indemnitee shall have the right to employ its own legal counsel in such Proceeding, but all Expenses related to such counsel incurred after notice from the Company of its assumption of the defense shall be at Indemnitee's own expense; provided, however, that if (i) Indemnitee's employment of its own legal counsel has been authorized by the Company, (ii) Indemnitee has reasonably determined that there may be a conflict of interest between Indemnitee and the Company in the defense of such Claim, (iii) after a Change in Control, Indemnitee's employment of its own counsel has been approved by the Independent Counsel or (iv) the Company shall not in fact have employed counsel to assume the defense of such Claim, then Indemnitee shall be entitled to retain its own separate counsel (but not more than one law firm plus, if applicable, local counsel in respect of any such Claim) and all Expenses related to such separate counsel shall be borne by the Company.

(c) **Settlement of Claims.** The Company shall not be liable to Indemnitee under this Agreement for any amounts paid in settlement of any threatened or pending Claim related to a Proceeding effected without the Company's prior written consent, which shall not be unreasonably withheld; provided, however, that if a Change in Control has occurred, the Company shall be liable for indemnification of the Indemnitee for amounts paid in settlement if an Independent Counsel has approved the settlement. The Company shall not settle any Claim related to an Indemnifiable Event in any manner that would impose any cost, Expense or liability on the Indemnitee or would admit wrongdoing on the part of Indemnitee, in each case without the Indemnitee's prior written consent.

10. **Indemnification Procedure; Determination of Right to Indemnification.**

(a) Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 6(a) hereof, a determination (subject to Section 4 hereof) with respect to Indemnitee's entitlement thereto shall be made in the specific case by one of the following four methods, which, if no Change in Control has occurred, shall be at the election of the Board: (1) by a majority vote of the Disinterested Directors, even though less than a quorum, (2) by a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors, even though less than a quorum, (3) if there are no Disinterested Directors or if the Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to the Indemnitee, or (4) if so directed by the Board, by the shareholders of the Company. If a Change in Control shall have occurred, a determination (subject to Section 4 hereof) with respect to Indemnitee's entitlement thereto shall be made (x) if the Indemnitee so requests in writing, by a majority vote of the Disinterested Directors, even if less than a quorum of the Board or (y) otherwise, by Independent Counsel in a written opinion addressed to the Board, a copy of which shall be delivered to Indemnitee.

(b) If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 7(a) hereof, the Independent Counsel shall be selected as provided in this Section 7(b). The Independent Counsel shall be selected by the Board. Indemnitee may, within 10 days after such written notice of selection shall have been given, deliver to the Company a written objection to such selection which shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If a written objection is made and substantiated, the Independent Counsel selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within 20 days after submission by Indemnitee of a written request for indemnification pursuant to Section 6(a) hereof, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition a California state court or other court of competent jurisdiction for resolution of any objection which shall have been made by the Indemnitee to the Company's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 7(a) hereof. The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel, and the Company shall pay all reasonable fees and expenses incident to the procedures of this Section 7(b), regardless of the manner in which such Independent Counsel was selected or appointed.

(c) The Indemnitee's Expenses incurred in connection with any proceeding concerning the Indemnitee's right to indemnification or Expense advances in whole or in part pursuant to this Agreement shall also be indemnified by the Company, regardless of the outcome of such action, suit or proceeding.

(d) Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Company or its Subsidiaries, including financial statements, or on information supplied to Indemnitee by the officers of the Company in the course of their duties, or on the advice of legal counsel for the Company or on information or records given or reports made to the Company by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Company. In addition, the knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Company shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement. Whether or not the foregoing provisions of this Section 7(d) are satisfied, it

shall in any event be presumed that Indemnitee has at all times acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(e) If the person, persons or entity empowered or selected under Section 7(a) to determine whether Indemnitee is entitled to indemnification shall not have made a determination within 60 days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification absent a prohibition of such indemnification under applicable law; provided, however, that such 60 day period may be extended for a reasonable time, not to exceed an additional 30 days, if the person, persons or entity making such determination with respect to entitlement to indemnification in good faith requires such additional time to obtain or evaluate documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 7(e) shall not apply if the determination of entitlement to indemnification is to be made by the shareholders pursuant to Section 7(a) of this Agreement and if (A) within 15 days after receipt by the Company of the request for such determination, the Board or the Disinterested Directors, if appropriate, resolve to submit such determination to the shareholders for their consideration at an annual meeting thereof to be held within 75 days after such receipt and such determination is made thereat, or (B) a special meeting of shareholders is called within 15 days after such receipt for the purpose of making such determination, such meeting is held for such purpose within 60 days after having been so called and such determination is made thereat.

(e) Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Independent Counsel, member of the Board or shareholder of the Company shall act reasonably and in good faith in making a determination regarding the Indemnitee's entitlement to indemnification under this Agreement. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(f) The Company acknowledges that a settlement or other disposition short of final judgment may be successful if it permits a party to avoid expense, delay, distraction, disruption and uncertainty. In the event that any action, claim or proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including, without limitation, settlement of such action, claim or proceeding with or without payment of money or other consideration) it shall be presumed that Indemnitee has been successful on the merits or otherwise in such action, suit or proceeding. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(g) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that



Indemnitee did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

11. **Limitations on Indemnification.** The Company shall make no payments pursuant to this Agreement:

(a) To indemnify or advance funds to the Indemnitee for Expenses with respect to Proceedings initiated or brought voluntarily by the Indemnitee and not by way of defense, except with respect to Proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under California law, but such indemnification or advancement of expenses may be provided by the Company in specific cases if the Board finds it to be appropriate;

(b) To indemnify the Indemnitee for any Expenses, judgments, fines, penalties or ERISA excise taxes sustained in any Proceeding for which payment is actually made to the Indemnitee under a valid and collectible insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) To indemnify the Indemnitee for any Expenses, judgments, fines or penalties sustained in any Proceeding for an accounting of profits made from the purchase or sale by the Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Exchange Act, the rules and regulations promulgated thereunder and amendments thereto or similar provisions of any federal, state or local statutory law;

(d) If a court of competent jurisdiction finally determines that any indemnification hereunder is unlawful;

(e) To indemnify the Indemnitee for any Expenses based upon or attributable to the Indemnitee gaining in fact any personal profit or advantage to which the Indemnitee was not legally entitled; and

(f) To indemnify or advance Expenses to Indemnitee for Indemnitee's reimbursement to the Company of any bonus or other incentive-based or equity-based compensation previously received by Indemnitee or payment of any profits realized by Indemnitee from the sale of securities of the Company, as required in each case under the Exchange Act (including any such reimbursements under Section 304 of the Sarbanes-Oxley Act of 2002 in connection with an accounting restatement of the Company or the payment to the Company of profits arising from the purchase or sale by Indemnitee of securities in violation of Section 306 of the Sarbanes-Oxley Act). Indemnitee remains subject to the Company's recoupment policy for incentive-based or equity based compensation.

12. **Maintenance of Liability Insurance.**

(a) The Company hereby covenants and agrees that, as long as the Indemnitee continues to serve as a director and/or officer of the Company and/or any Subsidiary and thereafter as long as the Indemnitee may be subject to any possible Proceeding, the Company, subject to subsection (c) below, shall promptly obtain and maintain in full force and effect directors' and officers' liability insurance ("D&O Insurance") in reasonable amounts from established and reputable insurers providing coverage.

(b) In all D&O Insurance policies, the Indemnitee shall be named as an insured in such a manner as to provide the Indemnitee the same rights and benefits as are accorded to the most favorably insured of the directors and officers of the Company and its Subsidiaries. Upon request, the Company will provide to Indemnitee copies of all directors' and officers' liability insurance applications, binders, policies, declarations, endorsements and other related materials.

(b) Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain D&O Insurance if the Company determines, in its sole discretion, that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, the coverage provided by such insurance is so limited by exclusions that it provides an insufficient benefit, or the Indemnitee is covered by similar insurance maintained by a Subsidiary of the Company. If the Company makes such a determination, it shall notify the Indemnitee 30 calendar days prior to discontinuing coverage.

13. **Indemnification Hereunder Not Exclusive.** The indemnification provided by this Agreement shall not be deemed exclusive of any other rights to which the Indemnitee may be entitled under the Company's Constituent Documents, any agreement, vote of shareholders or Disinterested Directors of the Company, provision of California law, or otherwise, both as to action in the Indemnitee's official capacity and as to action in another capacity on behalf of the Company or any Subsidiary while holding such office. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in the CCC, whether by statute or judicial decision, permits greater indemnification than would be afforded currently under the Constituent Documents and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

14. **Subrogation.** In the event of payment to Indemnitee under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee. Indemnitee shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

15. **Successors and Assigns.** This Agreement shall be binding upon, and shall inure to the benefit of the Indemnitee and the Indemnitee's heirs, executors, administrators and assigns, whether or not Indemnitee has ceased to be a director and/or officer of the Company or any wholly owned subsidiary or any director and/or officer of any of their successors and assigns.

16. **Merger, Consolidation or Change in Control.** If the Company is a constituent corporation in a merger or consolidation, whether the Company is the resulting or surviving corporation or is absorbed as a result thereof, or if there is a Change in Control of the Company, Indemnitee shall stand in the same position under this Agreement with respect to the resulting, surviving or changed corporation as Indemnitee would have with respect to the Company if its separate existence had continued or if there had been no Change in the Control of the Company.

17. **Severability.** Each and every paragraph, sentence, term and provision of this Agreement is separate and distinct so that if any paragraph, sentence, term or provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability

shall not affect the validity or enforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Agreement may be modified by a court of competent jurisdiction to preserve its validity and to provide the Indemnitee with the broadest possible indemnification permitted under applicable law.

18. **Savings Clause.** If this Agreement or any paragraph, sentence, term or provision hereof is invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify the Indemnitee as to any Expenses, judgments, fines, penalties or ERISA excise taxes incurred with respect to any Proceeding to the fullest extent permitted by any applicable paragraph, sentence, term or provision of this Agreement that has not been invalidated or by any other applicable provision of applicable law.

19. **Interpretation; Governing Law.** This Agreement shall be construed as a whole and in accordance with its fair meaning. Headings are for convenience only and shall not be used in construing meaning. This Agreement shall be governed and interpreted in accordance with the laws of the State of California applicable to contracts made and to be performed in such state without giving effect to its principles of conflicts of laws.

20. **Amendments.** No amendment, waiver, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by the party against whom enforcement is sought. The indemnification rights afforded to the Indemnitee hereby are contract rights and may not be diminished, eliminated or otherwise affected by amendments to the Company's Articles of Incorporation, the Company's Bylaws or by other agreements, including directors' and officers' liability insurance policies. Except as specifically provided herein, no failure to exercise or any delay in exercising any right or remedy hereunder shall constitute a waiver thereof.

21. **Counterparts.** This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective [\_\_\_\_\_], 2021 when one or more counterparts have been signed by each party and delivered to the other.

22. **Notices.** Any notice required to be given under this Agreement shall be directed to American States Water Company, 630 East Foothill Blvd., San Dimas, California 91773; Attention: Chief Financial Officer, and to Indemnitee at the address given on the signature page hereto or to such other address as either shall designate in writing.

*[Signature page to follow]*

IN WITNESS WHEREOF, the parties have executed this Indemnification Agreement as of the date first written above.

**[RECIPIENT NAME]**

\_\_\_\_\_

Notice Address:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**AMERICAN STATES WATER COMPANY**

By: \_\_\_\_\_

Its: President & CEO

Subsidiaries of  
American States Water Company

Golden State Water Company

American States Utility Services, Inc.

Fort Bliss Water Services Company

Old Dominion Utility Services, Inc.

Terrapin Utility Services, Inc.

Palmetto State Utility Services, Inc.

Old North Utility Services, Inc.

Emerald Coast Utility Services, Inc.

Fort Riley Utility Services, Inc.

California Cities Water Company, Inc.

Bear Valley Electric Service, Inc.

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3D (No. 333-155310) and S-8 (Nos. 333-129873, 333-108095, 333-189508, 333-155376 and 333-213049) of American States Water Company of our report dated March 1, 2023 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

March 1, 2023

I, Robert J. Sprowls, certify that:

- 1) I have reviewed this annual report on Form 10-K of American States Water Company (referred to as "the Registrant") for the year ended December 31, 2022;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- 4) The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.
- 5) The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Dated: March 1, 2023

By: /s/ ROBERT J. SPROWLS  
Robert J. Sprowls  
President and Chief Executive Officer

I, Robert J. Sprowls, certify that:

- 1) I have reviewed this annual report on Form 10-K of Golden State Water Company (referred to as "GSWC") for the year ended December 31, 2022;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the GSWC as of, and for, the periods presented in this report;
- 4) GSWC's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for GSWC and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to GSWC, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of GSWC's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in GSWC's internal control over financial reporting that occurred during GSWC's most recent fiscal quarter (GSWC's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, GSWC's internal control over financial reporting.
- 5) GSWC's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the GSWC's auditors and the audit committee of GSWC's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the GSWC's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in GSWC's internal controls over financial reporting.

Dated: March 1, 2023

By: /s/ ROBERT J. SPROWLS  
Robert J. Sprowls  
President and Chief Executive Officer



I, Eva G. Tang, certify that:

- 1) I have reviewed this annual report on Form 10-K of American States Water Company (referred to as "the Registrant") for the year ended December 31, 2022;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- 4) The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.
- 5) The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Dated: March 1, 2023

By: /s/ EVA G. TANG  
Eva G. Tang  
Senior Vice President-Finance, Chief Financial Officer,  
Treasurer and Corporate Secretary

I, Eva G. Tang, certify that:

- 1) I have reviewed this annual report on Form 10-K of Golden State Water Company (referred to as "GSWC") for the year ended December 31, 2022;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of GSWC as of, and for, the periods presented in this report;
- 4) GSWC's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for GSWC and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to GSWC, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of GSWC's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in GSWC's internal control over financial reporting that occurred during GSWC's most recent fiscal quarter (GSWC's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, GSWC's internal control over financial reporting.
- 5) GSWC's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to GSWC's auditors and the audit committee of GSWC's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect GSWC's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in GSWC's internal controls over financial reporting.

Dated: March 1, 2023

By: /s/ EVA G. TANG

Eva G. Tang  
Senior Vice President-Finance, Chief Financial Officer and  
Secretary

In connection with the Annual Report of American States Water Company and Golden State Water Company (the "Registrant") on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Robert J. Sprowls, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ ROBERT J. SPROWLS

Robert J. Sprowls  
President and Chief Executive Officer

Dated: March 1, 2023

*Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(18 U.S.C. Section 1350).*

EXHIBIT E

In connection with the Annual Report of American States Water Company and Golden State Water Company (the "Registrant") on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Eva G. Tang, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ EVA G. TANG

Eva G. Tang

Senior Vice President-Finance, Chief Financial Officer,  
Treasurer and Corporate Secretary

Dated: March 1, 2023

Schedule No. SJ-1-R-W

SAN JUAN OAKS CUSTOMER SERVICE AREA

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all residential metered water services.

TERRITORY

San Juan Oaks and vicinity , located in San Benito County

RATES

| Quantity Rates:                       | Year 1   |          | Year 5  |          |
|---------------------------------------|----------|----------|---------|----------|
|                                       | Per ccf  | Per 1CGL | Per ccf | Per 1CGL |
| Tier 1 - First 8 ccf or 5,984 gallons | \$13.095 | \$1.7505 | \$5.966 | \$0.7975 |
| Tier 2 - Over 8 ccf or 5,984 gallons  | \$15.059 | \$2.013  | \$6.861 | \$0.917  |

Service Charge:

|  |            |            |
|--|------------|------------|
| For 5/8 x 3/4-inch meter               | \$55.70    | \$21.87    |
| For 3/4-inch meter                     | \$83.55    | \$32.81    |
| For 1-inch meter                       | \$139.25   | \$54.68    |
| For 1 1/2 inch meter                   | \$278.50   | \$109.35   |
| For 2-inch meter                       | \$445.60   | \$174.96   |
| For 3-inch meter                       | \$835.50   | \$328.05   |
| For 4-inch meter                       | \$1,392.50 | \$546.75   |
| For 6-inch meter                       | \$2,785.00 | \$1,093.50 |
| For 8-inch meter                       | \$4,456.00 | \$1,749.60 |
| For 10-inch meter                      | \$6,405.50 | \$2,515.05 |
| Fire Sprinkler 1-inch to 5/8x 3/4-inch | \$61.27    | \$24.06    |
| Fire Sprinkler 1-inch to 3/4-inch      | \$86.34    | \$33.90    |
| Fire Sprinkler 1 1/2-inch to 3/4-inch  | \$113.07   | \$44.40    |
| Fire Sprinkler 2-inch to 3/4-inch      | \$123.65   | \$48.55    |
| Fire Sprinkler 2-inch to 1-inch        | \$177.13   | \$69.55    |

The service charge is a readiness-to-serve charge applicable to all metered service and to which is added the charge for water used computed at the Quantity Rates.

SPECIAL CONDITIONS

- 1 All bills are subject to the reimbursement fee set forth on Schedule No. UF.
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Schedule No. SJ-1-NR-W

SAN JUAN OAKS CUSTOMER SERVICE AREA

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service except those under Schedule No. SJ-1-R-W, Residential

TERRITORY

San Juan Oaks and vicinity , located in San Benito County

RATES

| Quantity Rates:                       | Year 1         |                 | Year 5         |                 |
|---------------------------------------|----------------|-----------------|----------------|-----------------|
|                                       | <u>Per ccf</u> | <u>Per 1CGL</u> | <u>Per ccf</u> | <u>Per 1CGL</u> |
| Tier 1 - First 8 ccf or 5,984 gallons | \$13.095       | \$1.7505        | \$5.966        | \$0.7975        |

Service Charge:

|                          |            |            |
|--------------------------|------------|------------|
| For 5/8 x 3/4-inch meter | \$55.70    | \$21.87    |
| For 3/4-inch meter       | \$83.55    | \$32.81    |
| For 1-inch meter         | \$139.25   | \$54.68    |
| For 1 1/2 inch meter     | \$278.50   | \$109.35   |
| For 2-inch meter         | \$445.60   | \$174.96   |
| For 3-inch meter         | \$835.50   | \$328.05   |
| For 4-inch meter         | \$1,392.50 | \$546.75   |
| For 6-inch meter         | \$2,785.00 | \$1,093.50 |
| For 8-inch meter         | \$4,456.00 | \$1,749.60 |
| For 10-inch meter        | \$6,405.50 | \$2,515.05 |

The service charge is a readiness-to-serve charge applicable to all metered service and to which is added the charge for water used computed at the Quantity Rates.

SPECIAL CONDITIONS

1 All bills are subject to the reimbursement fee set forth on Schedule No. UF.

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Schedule No. SJ-1-S

SAN JUAN OAKS CUSTOMER SERVICE AREA  
SEWER SERVICE

APPLICABILITY

Applicable to all wastewater services.

TERRITORY

San Juan Oaks and vicinity, located in San Benito County

RATES

|                          | Year 1                 | Year 5                 |
|--------------------------|------------------------|------------------------|
|                          | Per Month per<br>Meter | Per Month per<br>Meter |
| Service Charge:          |                        |                        |
| For 5/8 x 3/4-inch meter | \$110.81               | \$42.94                |
| For 3/4-inch meter       | \$166.22               | \$64.41                |
| For 1-inch meter         | \$277.03               | \$107.35               |
| For 1 1/2 inch meter     | \$554.05               | \$214.70               |
| For 2-inch meter         | \$886.48               | \$343.52               |
| For 3-inch meter         | \$1,662.15             | \$644.10               |
| For 4-inch meter         | \$2,770.25             | \$1,073.50             |
| For 6-inch meter         | \$5,540.50             | \$2,147.00             |
| For 8-inch meter         | \$8,864.80             | \$3,435.20             |
| For 10-inch meter        | \$12,743.15            | \$4,938.10             |

SPECIAL CONDITIONS

- 1 All bills are subject to the reimbursement fee set forth on Schedule No. UF.
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Sewer Rule No. 1  
Definitions

Applicant: The person, association, corporation or governmental agency applying for sewer service.

Business Day: Monday through Friday, excluding federal or state holidays.

Commercial Service: Sewer service to commercial, business and institutional premises including, but not limited to, offices, stores, markets, hotels, motels, dormitories, automobile trailer parks or courts, service stations, schools, churches, hospitals, convalescent homes, and other similar types of facilities.

Customer: Any person, association, corporation or governmental agency supplied or entitled to be supplied with sewer service by the utility for compensation. However, account information can only be discussed with the Customer of Record or their authorized representative. Unless the property receives both water and sewer service from the Utility, only the property owner may open an account for service and be the customer of record.

Customer's Lateral: That portion of the service line extending from the building to a point of connection with the utility's lateral.

Customer of Record: The person, association, corporation or governmental agency who is obligated to pay the bill.

Date of Presentation: The date upon which a bill or notice is mailed or delivered by the utility to the Customer of Record.

Disabled Customer: Any residential customer whose certified health or physical condition may qualify her or him for special consideration. Proof of disability must be by certification from any internist, general practitioner, obstetrician-gynecologist, pediatrician, family physician and surgeon, nonphysician medical practitioner, or any primary care clinic, rural health clinic, community clinic or hospital outpatient clinic currently enrolled in the Medi-Cal program, which agrees to provide case management to Medi-Cal beneficiaries as defined in subparagraph (A) of paragraph (1) of subdivision (b) of Section 14088 of the Welfare and Institutions Code.

Electronic Transfer: Paperless exchange of data and /or funds, usually involving computer and telecommunications technology.

Flat Rate Service: Service for which the charges are based upon the types and number of units served.

Industrial Service: Sewer service to any premises used for manufacturing, processing or other industrial purposes which discharge waste, sanitary waste and sewage by reason of the manufacturing processing or other industrial purpose involved, or discharges chemicals or putrescent.

Main: A sewer line owned, operated and maintained by the utility to transport sewage, but does not include service line.

Main Extension: The extension of sewer mains beyond existing facilities in accordance with the provisions of the rule applicable to main extensions filed as part of these tariff schedules.



Sewer Rule No. 1  
Definitions

Metered Service: Service for which the charges are computed on the basis of measured quantities of sewage discharged from the premises or estimated from measured quantities of fresh water delivered to the premises.

Multiple Family Dwelling Service: Sewer service to any premise designed, improved or used as a residence for two or more families living independently of each other in two or more structurally joined dwelling units with separate entrances; this term shall include apartment houses and duplexes, but it shall not include hotels, motels, dormitories, or similar structures.

Nonresidential Sewage: The liquid wastes from industrial or manufacturing processes, trades, businesses or other sources, as distinct from residential sewage. Nonresidential sewage may contain wastes that are not typical of residential sewage, for example, fats, oils, grease, biological materials, or chemicals.

Occupant: Any adult person demonstrably residing on premises actively served by the utility. However, account information can only be discussed with the Customer of Record or their authorized representative.

Older Adult Customer: Any residential customer who is age 62 or over may qualify for special consideration under Sewer Rule No. 11.B.1.j (Third-Party Representation).

Person: Any individual, trust, association, corporation, limited liability company, partnership, joint venture, governmental agency, or other entity.

Premises: The integral property or area, including improvements thereon, to which sewer service is, or is to be, provided.

Point of Connection: That point at which a line owned by a customer connects with a line owned by the company.

Public Utilities Commission: In these rules the word "Commission" or words "Public Utilities Commission" shall be construed to mean the Public Utilities Commission of the State of California.

Reclaimed Water Service: Provision of treated wastewater or other remediated water for commercial, agricultural, industrial or other non-potable use.

Residential Service: Sewer service to a residential connections that includes single-family residences, multifamily residences, mobilehomes, including, but not limited to, mobilehomes in mobilehome parks, or farmworker housing.

Residential Sewage: Water and waste-borne wastes of the nature and concentrations that are ordinarily expected from household use, including water collected from toilets, sinks, showers, bathtubs, dishwashers, and washing machines.

Service Address: Address of the property to which sewer service is provided.

Service Connection: The point of connection of the customer's piping or ditch with the meter, service pipe or ditch owned by the utility.

Service Line: A sewer line which connects the plumbing system of the building to the main.

Sewer Rule No. 1  
Definitions

Service Pipe: The connection between the utility's mains and the service connection, including all the pipe, fittings and valves necessary to make the connection.

Sewer Line: A pipe or conduit for carrying sewage.

Sewer service: The collection, transportation, and treatment of sewage by the utility.

Single Family Residential Service: Sewer service to a premise designed, improved, or used as a residence for one family and a caretaker, senior unit or guest house, and no other purpose.

Tariff Schedules or Tariff Schedule Book: The entire body of effective rates, rentals, charges, rules, and sample forms collectively, as set forth herein.

Tariff Sheet: An individual sheet of the tariff schedule book.

Temporary Service: Sewer service which is usually supplied for a limited duration to provide sanitation facilities for construction purposes and emergency situations.

Utility: The public utility named herein.

Utility's Lateral: That portion of the service line extending from the main to a point of connection with the customer's lateral; a cleanout may be included near to the point of connection.

Water Shutoff Protection Act: Chapter 6 (commencing with Section 116900 and ending with Section 116926) of Part 12 of Division 104 of the Health and Safety Code.

Sewer Rule No. 2  
Description of Service

A. Quantities

The utility will endeavor to supply sewer and reclaimed water service dependably and safely in adequate quantities to meet the reasonable needs and requirements of customers. The utility will operate its plant and system in accordance with its tariffs and with the regulations of the California Public Utilities Commission, California Division of Drinking Water, State Water Resources Control Board, Regional Water Quality Control Board and the County Health Department.

B. Pressures

Collection service will ordinarily operate on gravity flow. If a lift is required in the mains, it will be provided by the utility by means of lift stations or force mains. Any lift that may be required in the service line shall be provided by the customer.

C. Quality

The utility will maintain its mains and its portion of each service line free from obstructions. Each customer is responsible for clearing obstructions in and maintaining the customer's portion of the service line.

D. See Sewer Rule No. 16 for additional customer and utility responsibilities.

Sewer Rule No. 3  
Application For Service

A. Application for Service

1. Content

Each applicant for service may be required to sign, on a form provided by the utility, an application which will set forth:

- a. Date and place of application.
- b. Location of premises to be served.
- c. Date applicant will be ready for service.
- d. Whether the premises have been heretofore supplied with sewer by the utility.
- e. Purpose for which service is to be used.
- f. Address to which bills are to be mailed or delivered.
- g. Whether applicant is owner or tenant of, or agent for the premises.
- h. Rate schedule desired where optional rates are in effect.
- i. Such other information as the utility may reasonably require.

2. Purpose

The application is merely a written request for service and does not bind the applicant to take service for a period of time longer than that upon which the flat rate charge, minimum charge, or readiness to serve charge of the applicable rate schedule is based; neither does it bind the utility to serve, except under reasonable conditions.

B. Individual Liability for Joint Service

Two or more parties who join in one application for service shall be jointly and severally liable for payment of bills and shall be billed by means of single periodic bills.

C. Change in Customer's Equipment or Operations

A customer making any material change in size, character or extent of the equipment or operations for which the utility's service is utilized shall immediately give the utility written notice of the extent and nature of the change.

Sewer Rule No. 3  
Application For Service

D. Discharge of Sewage Without Application for Service Having Been Made

Any person discharging sewage to the service line without having made application to the utility for service, shall be liable for the full amount of the service rendered.

E. Service to Affordable Housing

Applications for service to a proposed development that includes housing units affordable to lower income households shall not be denied, conditioned, or reduced unless the utility finds in writing that said action is necessary due to the existence of one or more of the following:

1. The applicant for service has failed to agree to reasonable terms and conditions relating to the provision of service generally applicable to development projects, including, but not limited to, the requirements of local, state, or federal laws and regulations.
2. The utility providing sewer service does not have sufficient treatment or collection capacity, as demonstrated by a written engineering analysis and report on the condition of treatment or collection works, to serve the needs of the proposed development.
3. The utility providing sewer service is under an order issued by a regional water quality control board that prohibits new sewer connections.

Unless otherwise stated, definitions of the language herein are governed by Section 65589.7 (d) of the Government Code.

F. Service to a Tenant

No tenant applying for residential sewer service shall be required to pay charges or penalties on account of nonpayment of charges by a previous tenant. The Company may, however, require that service to subsequent tenants be furnished on the account of the landlord or property owner.

Sewer Rule No. 4  
Contracts

A contract, as a condition precedent to receiving service from the utility, will be required only under any of the following circumstances.

1. Where required by provision in a filed rate schedule.
2. When a main extension to be made under the provision of Rule No. 15 requires an advance for construction.
3. For temporary service supplied under the provisions of Rule No. 13.
4. For standby service, except where furnished under a filed rate schedule not requiring a contract.
5. For any service to be furnished at rates or under conditions other than the rates and conditions contained in these tariff schedules, such contract to become effectively only after such authorization as may be required by the Public Utilities Commission has first been obtained.

Sewer Rule No. 5  
Special Information Required On Forms

## A. Contracts

Each contract for service will contain substantially the following provisions:

1. Unless exempted by the Public Utilities Commission:

“This contract shall at all times be subject to such changes or modification by the Public Utilities Commission of the State of California as said Commission may, from time to time, direct in the exercise of its jurisdiction.”

2. Unless otherwise not required by the Public Utilities Commission:

“It is the understanding of the parties to this contract that it shall not become effective until the authorization of the Public Utilities Commission of the State of California has been first obtained.”

## B. Bill for Service

On each bill for service will be printed substantially the following language:

“This bill is due and payable upon date of presentation. It will become past due if not paid within 19 days from the date of mailing.”

“If you believe there is an error on your bill or have a question about your service, please call Customer support at 800-999-4033. We welcome the opportunity to assist you.

If after contacting us, you are still not satisfied with the company’s response, you may submit a complaint to the California Public Utilities Commission (CPUC) by visiting <http://www.cpuc.ca.gov/complaints/>. Billing and service complaints are handled by the CPUC’s Consumer Affairs Branch (CAB), which can be reached by the following means if you prefer not to Submit your complaint online:

**Telephone:** 1-800-649-7570 (8:30 AM to 4:30 PM, Monday through Friday)

**Mail:** California Public Utilities Commission, Consumer Affairs Branch,  
505 Van Ness Avenue, 3<sup>rd</sup> Floor, San Francisco, CA 94102

If you have limitations hearing or speaking, dial 711 to reach the California Relay Service, which is for those needing direct assistance relaying telephone conversations, as well their friends, family, and business contacts.”

Sewer Rule No. 5  
Special Information Required On Forms

## B. Bill for Service (Continued)

If you prefer having your calls immediately answered in your mode of communication, dial on of the toll-free language-specific numbers below to be routed to the California Relay Service provider.

| Type of Call                  | Language | Toll-free 800 Number |
|-------------------------------|----------|----------------------|
| TTY/VCO/HCO to Voice          | English  | 1-800-735-2929       |
|                               | Spanish  | 1-800-855-3000       |
| Voice to TTY/VCO/HCO<br>Voice | English  | 1-800-735-2922       |
|                               | Spanish  | 1-800-855-3000       |
| From or to Speech-to-Speech   | English  | 1-800-854-7784       |
|                               | Spanish  |                      |

To avoid having service turned off while you wait for the outcome of a complaint to the CPUC **specifically regarding the accuracy of your bill**, please contact CAB for assistance. If your case meets the eligibility criteria, CAB will provide you with instructions on how to mail a check or money order to be impounded pending resolution of your case. You must continue to pay your current charges while your complaint is under review to keep your service turned on. If bill becomes past due and nonpayment results with respect to this dispute, the rules for discontinuance of service due to nonpayment must be followed as set forth in Tariff Sewer Rule No. 11.B.1.

The Commission will not, however, accept deposits when the dispute appears to be over matters that do not directly relate to the accuracy of the bill. Such matters include the quality of a utility's service, general level of rates, pending rate applications and sources of fuel or power.

## C. Discontinuance of Service for Nonpayment - Notice

Every written notice of discontinuance of service for non-payment of bills shall include all of the following information:

1. The name and address of the customer whose account is delinquent.
2. The amount of delinquency.
3. The date by which payment or arrangements for payment is required in order to avoid discontinuance.
4. A description of the process to apply for an extension of time to pay delinquent charges.



Sewer Rule No. 5  
Special Information Required On Forms

C. Discontinuance of Service for Nonpayment - Notice (Continued)

5. The procedure to petition for bill review and appeal to the Commission.
6. The procedure by which the customer may request a deferred (paying at a later date), reduced, or some other alternative payment schedule, including an amortization (spreading payments out over an agreed upon period of time not to exceed 12 months) of the unpaid charges as set forth in Sewer Rule No. 11.B.1.e.
7. The procedure for the customer to obtain information on the availability of financial assistance, including private, local, state, or federal sources, if applicable.
8. The name, address, and telephone number of a representative of the utility who can provide additional information and assist customers in continuing service or in making arrangements for payment.
9. The telephone numbers of the Commission (Consumer Affairs Branch) (800) 649-7570 or the California Relay Service TTY (800) 735-2929/22 English or (800) 855-3000 Spanish or (800) 854-7784 English/Spanish Speech-to-Speech to which inquiries by the customer may be directed (as stated in Sewer Rule No. 5.B.).

Residential Customers. Where sewer service is provided to residential occupants in a detached single-family dwelling, multi-unit residential structure, mobilehome park, or permanent residential structures in a labor camp, where the owner, manager or operator is listed by the utility as the customer of record but is not the occupant, the notice of discontinuance shall further include:

- a. The date on which service will be discontinued.
- b. What the occupants are required to do in order to prevent the discontinuance or to reestablish service.
- c. The estimated monthly cost of service (where service is metered).
- d. The address and telephone number of a legal services project, as defined in Section 6213 of the Business and Professions Code, which has been recommended by the local county bar association, which will assist the occupants (where service is metered).

Sewer Rule 5.C.4 through 5.C.9 are also described in the written policy of discontinuance of service due to nonpayment of bills which is available at <https://www.gswater.com/policy-of-discontinuation/>

Sewer Rule No. 6  
Establishment And Re-Establishment Of Credit

A. Establishment of Credit

Each applicant for metered service will be required to establish credit, which will be deemed established upon qualifying under any one of the following:

1. Applicant owns the premises for which service is requested, or owns other real estate within the same service area of the utility.
2. Applicant makes deposit prescribed in Sewer Rule No. 7 under "Amount to Establish Credit"
3. Applicant has been a customer of the utility and during the last 12 consecutive months of that prior service has paid all bills for service without having been disconnected for non-payment thereof.

B. Re-establishment of Credit

1. An applicant who previously has been a customer of the utility and during the last 12 months of that prior service has had service discontinued for nonpayment of bills, will be required to pay any unpaid balance due to the utility for premises for which service is to be restored and may be required to reestablish credit by making the deposit prescribed in Sewer Rule No. 7 under "Amount to Re-establish Credit."
2. A customer whose service has been discontinued for nonpayment of bills will be required to pay an unpaid balance due the utility for the premises for which service is to be restored and may be required to pay a reconnection charge as prescribed in Sewer Rule No. 11 under "Restoration - Reconnection Charge" and to re-establish credit by making the deposit prescribed in Sewer Rule No. 7 under "Amount to Re-establish Credit" before service is restored.

Sewer Rule No. 7  
Deposits

A. Amount to Establish Credit

1. Metered Service

To establish credit by deposit, the amount for all other service will be twice the estimated average monthly bill.

2. Flat Rate Service

No deposit will be required, except as prescribed for temporary service in Sewer Rule No. 13.

B. Amount to Re-Establish Credit

1. Former Customers

To re-establish credit for an applicant who previously has been a customer of the utility and during the last 12 months of that prior service has had service discontinued for nonpayment of bills, the amount will be twice the estimated average monthly or bimonthly bill to be rendered for the service requested.

2. Present Customers

To re-establish credit for a customer whose service has been discontinued for nonpayment of bills, the amount will be twice the average monthly or bimonthly bill to be rendered for that service.

C. Applicability to Unpaid Accounts

Deposits made under this rule will be applied to unpaid bills for service when such service has been discontinued.

Sewer Rule No. 7  
Deposits

D. Return of Deposits

1. Upon discontinuance of service, the utility will refund the balance of the customer's deposit in excess of unpaid bills for that service for which the deposit was made.
2. If the customer has paid bills for service on the average within 15 days after presentation during the period of time the deposit is held or for 12 consecutive months, the utility will refund the deposit with interest as provided in Paragraph E of this rule.
3. Should the customer establish credit by other means in accordance with Sewer Rule No. 6 and then requests the return of his deposit, it shall then be returned with interest.

E. Interest on Deposits

1. The Utility will pay simple interest on deposits at the average monthly 90-day Commercial paper rate per month for the last calendar year (or shorter period if service is discontinued after less than 12 months) and for additional time thereafter up to the date of refund; provided, however, the no Interest shall accrue (1) after mailing refund or notice that refund is due and payable to the customer at his last known address, and (2) if service is temporarily or permanently disconnected for nonpayment disconnected for nonpayment of bills.
2. No Interest will be paid on deposits made for temporary service.

Sewer Rule No. 8  
Notices

A. Notice to Customers

1. In Writing

Notice to a customer will normally be in writing. Depending on the type of notice, written notice will either be delivered or mailed to the customer's last known address, except as otherwise specified by the utility's tariffs.

2. Exception

In emergencies or when circumstances warrant, the utility, where feasible, will endeavor to promptly notify the customer affected and may make such notification orally, either in person or by telephone.

3. Notice of Discontinuance of Service of Residential Service for Nonpayment

a. The utility shall contact the residential customer of record at least 7 business days prior to discontinuance by telephone or written notice.

- (1) Written notice shall be mailed to the address of the customer of residence to which the residential service is provided. If the customer's address is not the address of the property to which residential service is provided, the notice also shall be sent to the service address with "Occupant" as the addressee. The notice shall include the information prescribed in Sewer Rule No. 5. C.
- (2) Telephone notice shall be to the customer named on the account. In providing such notice by telephone, the utility shall offer to: (i) provide customer with a written copy of the utility's policy on discontinuation of service due to nonpayment; and (ii) discuss options available to customer to avert discontinuance including alternative payment schedules, deferred payments, minimum payments, procedures for requesting amortization of the unpaid balance, and procedures to petition for bill review and appeal.
- (3) If the utility is unable to make contact with the customer or an adult occupying the residence by telephone, and written notice is returned as undeliverable, the utility will make a good faith effort to visit the residence and leave (or make other arrangements for placement in a conspicuous place) a notice as prescribed herein, along with a written copy of the utility's policy on discontinuation of service for nonpayment.

Sewer Rule No. 8  
Notices

## A. Notice to Customers (Continued)

## 3. Notice of Discontinuance of Service of Residential Service for Nonpayment

- b. The utility shall contact the residential occupants of a detached single-family dwelling, multi-unit residential structure, mobilehome park, or permanent residential structures in a labor camp, where the owner, manager, or operator is listed by the utility as the customer of record, as follows:
  - (1) Where individually metered service is provided, the utility will make every good faith effort to inform the occupants by means of a notice at least 10 days prior to any discontinuance, when the account is in arrears, that service will be discontinued. In addition to including the information prescribed in Sewer Rule No. 5, the notice will inform the occupants that, if the utility's verification and other requirements are met, they have the right to become a customer, to whom the service will then be billed, without being required to pay any amount which may be due to the delinquent account.
  - (2) Where master metered service is provided, the written notice will be at least 15 days prior to discontinuance or service. The notice will be posted on the door of each residential unit. If it is not reasonable or practical to post the notice on the door of each residential unit, the utility will post two copies of the notice in each accessible common area and at each point of access to the structure or structures.
  - (3) Notice to occupants shall be independent of, and in addition to, other notice(s) as may be prescribed in the utility's tariffs.
- c. All notices of discontinuance for nonpayment relating to residential services will be in English, the languages listed in Section 1632 of the Civil Code (Spanish, Chinese, Korean, Vietnamese, Tagalog), and any other language spoken by 10 percent or more of the customers in the utility's service area. The notice will include the information prescribed in Sewer Rule No. 5.C.
- d. Procedures for the discontinuance and restoration of service are specified in Sewer Rule No. 11.

## 4. Notice of Discontinuance of All Other Services (Nonresidential) for Nonpayment

The utility shall make a reasonable attempt to contact: (i) the customer of record by mailing a separate notice at least 10 days prior to discontinuance, or (ii) an adult person on the customer's premises by telephone or in person at least 24 hours prior to any discontinuance.

Sewer Rule No. 8  
Notices

A. Notice to Customers (Continued)

5. Discontinuance of Service for Reasons Other Than Nonpayment

The utility may discontinue service for reasons not related to payment. Sewer Rule No. 11 provides additional examples of circumstances resulting in discontinuation of service and related notice, if any, associated with the specific situation.

6. Third-Party Notification

Notice of availability of third-party notification shall be given annually to all residential customers.

B. Notice from Customers

1. A customer may make notification in person, by telephone or by letter to the utility at its commercial office, or to an authorized representative of the utility.
2. Customers who wish to qualify for consideration under Sewer Rule No. 11.B.1.e. must have presented evidence to the utility establishing their status.
3. Older Adult or disabled customers who desire third-party notification must so inform the utility with certification of status and with a letter from the third party accepting the responsibility.
4. Proof of age must be supported by certificate of birth, driver's license, passport or other reliable document. Proof of handicap must be by certification from a licensed physician, public health nurse or social worker.

Sewer Rule No. 9  
Rendering And Payment Of Bills

A. Rendering of Bills

Bills for service will be rendered to each customer on a monthly or bimonthly basis at the option of the utility, unless otherwise provided in the rate schedules.

At the customer's request, the utility may be requested to provide either paper or electronic bills for service rendered, but not both.

The customer may elect to receive and view regular bills for service and other legal and mandated notices electronically and to no longer receive paper bills and legal and mandated notices. Customers requesting this option may be required to complete additional forms and agreements. Legal and mandated notices shall be included with the utility's electronic means of bill delivery; except, however, all notices of termination of service shall be made in accordance with Sewer Rule No. 8. The customer may discontinue electronic billing upon 30 days prescribed notice.

1. Metered Service

- a. Meters will be read at regular intervals for the preparation of periodic bills and as required for the preparation of opening bills, closing bills and special bills.
- b. The opening bills for metered service will not be less than the established monthly minimum or readiness to serve charge for the service. Any amount paid in excess of the prorated charges otherwise applicable to the opening period will be credited against the charge for the succeeding regular billing period, except that no such credit shall accrue if the total period of service is less than one month.
- c. It may not always be practicable to read meters at intervals which will result in billing periods of equal numbers of days.
  - (1) Should a monthly billing period contain less than 27 days or more than 33 days a pro rata correction in the amount of the bill will be made.
  - (2) The charge for metered service for a bimonthly period will be computed by doubling the monthly minimum or readiness to serve charge and the number of cubic feet to which each block rate is applicable on a monthly basis.
  - (3) For billing periods other than monthly or bimonthly adjustments will be made proportionate to that for a monthly billing period.
- d. Bills for metered service will show at least the reading of the meter at the end of the period for which the bill is rendered, the meter constant, if any, the number and kinds of units, and date of the current meter reading.



Sewer Rule No. 9  
Rendering And Payment Of Bills

1. Metered Service (Continued)
  - e. Each meter on a customer's premises will be considered separately and the readings of two or more meters will not be combined except where combination of meter readings is specifically provided for in the applicable rate schedule, or where the utility's operating convenience or necessity may require the use of more than one meter or a battery of meters. In the latter case, the monthly minimum or readiness to serve charge will be prorated from the monthly minimum or readiness to serve charges of the applicable rate schedule upon the basis of a meter size equivalent in diameter to the total combined discharge areas of such meters.
2. Flat Rate Service
  - a. Bills for flat rate service are payable in advance.
  - b. The opening bill for flat rate service will be the established monthly charge for the service. Any amount paid in excess of the prorated charges otherwise applicable to the opening period will be credited against the charge for the succeeding regular billing period, except that no such credit shall accrue if the total period of service is less than one month.
  - c. For billing periods other than monthly, the charge for flat rate service will be computed by multiplying the monthly charge by the number of months in the billing period.
3. Proration of Bills
  - a. The charges applicable to opening periods, closing bills and bills rendered for periods corresponding to less than 27 days or more than 33 days for monthly billing periods will be computed as follows:
    - (1) Metered Service

The amount of the minimum charge (and the quantity allowed therefor) or the readiness to serve charge and the quantity in each of the several quantity rate blocks will be prorated on the basis of the ratio of the number of days in the period to the number of days in an average billing period. The measured quantity of usage will be applied to such prorated amounts and quantities.

Sewer Rule No. 9  
Rendering And Payment Of Bills

3. Proration of Bills (Continued)

(2) Flat Rate Service

The billing period charge will be prorated on the basis of the ratio of the number of days in the period to the number of days in an average billing period.

(3) Average Billing Period

The number of days in an average billing period is defined as 365 divided by the number of billing periods in a year. (It is 30.4 days for a monthly billing period.)

B. Payment of Bills

1. Bills for service are due and payable upon presentation and payment may be made at any commercial office of the utility or to any representative of the utility authorized to make collections. Collection of closing bills may be made at the time of presentation.

2. The utility may charge \$10.00 for any bad check, electronic fund transfer or Automated Clearing House (ACH) not honored.

3. Credit/Debit Card Option

At the option of the customer, a credit or debit card payment can be made. These payments will be accepted through the use of a vendor(s), and a non-refundable \$1.45 convenience fee for transactions up to \$800 shall apply. Customers are limited to one transaction per each assessed fee. If a customer has more than one account, a separate transaction is needed for each account. A non-refundable convenience fee will apply for each transaction completed and will be added as a charge to the credit/debit account by the vendor(s) and not the utility statement. The convenience fee is paid directly to the vendor(s), not the utility. The payment option is not available to customers who have made fraudulent payments within the last 12 months.

C. Service to Tenants

No tenant applying for residential service shall be required to pay any charges or penalties on account of non-payment of charges by a previous tenant. The company may, however, require that service to subsequent tenants be furnished on the account of the landlord or property owner.

Sewer Rule No. 10  
Disputed Bills

A. Correctness of Bill

Any customer (or adult occupant of a residential service address) who has initiated a complaint to the utility or requested an investigation by the utility within five days of receiving a contested bill shall be given an opportunity for review of such complaint or investigation by a review manager of the utility. The review shall include consideration of whether the customer should be permitted to amortize the unpaid balance of her or his account over a reasonable period of time.

B. Notice of Deposit to Avoid Discontinuance

If an explanation satisfactory to the customer is not made by the utility and the bill is not paid within 19 days after its presentation or at the time the explanation is made, whichever is longer, the utility will notify the customer in writing substantially as follows:

1. To avoid discontinuance of service, in lieu of paying the bill in question, the residential customer within 15 days and the nonresidential customer within 7 days of the date of this notice, may deposit with the California Public Utilities Commission, Consumer Affairs Branch, 505 Van Ness Avenue, 3<sup>rd</sup> Floor, San Francisco, California 94102 the amount of the bill claimed by the utility to be due. Review of the dispute will be conducted by the Commission's Consumer Affairs Branch. Pending the Commission's review of the disputed bill, water service will not be discontinued.

C. Commission Appeal

When a customer and the utility fail to agree on a bill for service:

1. In lieu of paying the disputed bill the customer may deposit, with the California Public Utilities Commission, Consumer Affairs Branch, 505 Van Ness Avenue, 3<sup>rd</sup> Floor, San Francisco, California 94102, the amount claimed by the utility to be due. Whether or not the residential customer makes a deposit with the California Public Utilities Commission, the utility shall not discontinue the sewer service of any residential customer for a minimum total of 79 days from the date of mailing its bill for services, postage prepaid.
2. Checks or other forms of remittance for such deposit should be made payable to the California Public Utilities Commission and should be accompanied with the bill in question and a statement setting forth the basis for the dispute of the amount of the bill.

Sewer Rule No. 10  
Disputed Bills

C. Commission Appeal (Continued)

3. Upon receipt of the deposit, the bill and the customer's statement of the dispute, the Commission will notify the utility, will review the basis of the billed amount, and will advise both parties of its findings and disburse the deposit in accordance therewith.
4. Service will not be discontinued for nonpayment of the disputed bill when deposit has been made with the Commission (Consumer Affairs Branch), pending the outcome of the Commission's review.
5. Failure of the customer to make such deposit prior to the expiration of the discontinuance of service notice as given in Sewer Rule No. 10.B.1. will warrant discontinuance of service.
6. If before the completion of the Commission's review, additional bills become due which the customer wishes to dispute, she or he shall also deposit with the Commission the additional amounts claimed by the utility to be due for such additional bills before they become past due and failure to do so will warrant discontinuance of her or his service in accordance with Sewer Rule No. 11.

Sewer Rule No. 11  
Discontinuance And Restoration Of Service

A. Customer's Request for Discontinuance of Service

1. A customer may have service discontinued by giving not less than two days' advance notice thereof to the utility. Charges for service may be required to be paid until the requested date of discontinuance or such later date as will provide not less than the required two days' advance notice.
2. When such notice is not given, the customer may be required to pay for service until two days after the utility has knowledge that the customer has vacated the premises or otherwise has discontinued sewer service.

B. Discontinuance of Service by Utility

1. For Nonpayment of Bills

a. Past-Due Bills.

When bills are rendered monthly or bimonthly, they will be considered past due if not paid within 19 days from the date of mailing.

(1) Residential Service

For the purposes of this rule, residential service means sewer service to a residential connection that includes single-family residences, multifamily residences, mobilehomes, including, but not limited to, mobilehomes in mobilehome parks, or farmworker housing. When bills are rendered monthly or bimonthly, they will be considered past due if not paid within 19 days from the date of mailing. The utility shall allow every residential customer a total of 79 days from the date of mailing its bill for services, postage prepaid, to make payment of the bill prior to discontinuance of service. The utility shall not discontinue residential service for nonpayment of a delinquent account unless the utility first gives notice of the delinquency and impending discontinuance, in conformance with Sewer Rule No. 8.A.3, which establishes notice periods ranging from 7 to 15 days, depending on the occupancy type. The utility will provide notices timely to ensure that the applicable notice period is included in the total 79-day period referenced above and does not provide additional time to pay.

(2) All Other Service (Non-residential)

The utility shall not discontinue nonresidential service for nonpayment of a delinquent account unless the utility first gives notice of the delinquency and impending discontinuance in conformance with Sewer Rule No. 8.A.4.

Sewer Rule No. 11  
Discontinuance And Restoration Of Service

B. Discontinuance of Services by Utility (Continued)

1. For Nonpayment of Bills (Continued)

b. When a bill for sewer service has become past due and a discontinuance of service notice for nonpayment has been issued, service may be discontinued if bill is not paid in full (or alternative payment arrangements acceptable to the utility have not been made) within the time required by such notice. The customer's service, however, will not be discontinued for nonpayment until the amount of any deposit made to establish credit for that service has been fully absorbed.

c. Petition for Utility Review.

- (1) Any customer (or adult occupant of residential service address) may petition the utility for review of a bill for sewer service in accordance with Sewer Rule Nos. 5 and 10.
- (2) Such customer shall not have the sewer service discontinued for nonpayment during the pendency of an investigation by the utility of a complaint or request and shall be given an opportunity for review of the complaint, investigation, or request by a review manager of the utility, if:
  - (i) The customer who has initiated a billing complaint or requested an investigation within 5 days of receiving a disputed bill, or
  - (ii) Before discontinuance of service, the customer made payment arrangements for a bill asserted to be beyond the means of the customer to pay in full within the normal period for payment.
- (3) The review shall include consideration of whether a customer shall be permitted to make installment payments on any unpaid balance of the delinquent account over a reasonable period of time, not to exceed 12 months.

Such service shall not be discontinued for nonpayment for any customer complying with an installment payment agreement entered into with the utility, provided the customer also keeps current her or his account for sewer service as charges accrue in each subsequent billing period.

If a customer fails to comply with an installment payment agreement the utility will give a discontinuance of service notice no less than 5 business days before discontinuing such service, but such notice shall not entitle the customer to further investigation or alternative payment arrangements by the utility.

Sewer Rule No. 11  
Discontinuance And Restoration Of Service

B. Discontinuance of Services by Utility (Continued)

1. For Nonpayment of Bills (Continued)

d. Appeal to the Commission.

Any customer (or adult occupant of a residential service address) whose complaint or request for an investigation pursuant to subdivision (c) has resulted in a determination by the utility adverse to such customer or adult occupant, may appeal the determination to the Commission in accordance with Sewer Rule Nos. 5 and 10 (including depositing the disputed amount with the Commission). Any such appeal of the disputed bill to the Commission shall be in accordance with the Commission's Rules of Practice and Procedure. Written documentation of an appeal filed and diligently pursued with the Commission will prevent discontinuation of residential sewer service during the official appeal process.

e. Residential Health and Safety Exception.

(1) Service to a residential customer will not be discontinued for nonpayment when such customer establishes to the satisfaction of the utility that all three of the following conditions are met:

- (i) The residential customer submits certification from a primary care provider\*, as defined by the Water Shutoff Protection Act, that discontinuation of residential service will be life threatening to, or pose a serious threat to the health and safety of, a resident of the premises where residential service is provided;

\*Proof must be by certification from any internist, general practitioner, obstetrician-gynecologist, pediatrician, family physician and surgeon, nonphysician medical practitioner, or primary care clinic, rural health clinic, community clinic or hospital outpatient clinic. A "nonphysician medical practitioner" means a physician assistant or certified nurse-midwife performing services under physician and surgeon supervision, or a nurse practitioner performing services in collaboration with a physician and surgeon. (See Section 14088(b)(1)(A) and (c) of the California Welfare and Institutions Code.

- (ii) The residential customer demonstrates that she or he is financially unable to pay for residential service within the urban and community water system's normal billing cycle. The customer shall be deemed financially unable to pay for residential service within the urban and community water system's normal billing cycle if any member of the customer's household is a current recipient of CalWORKs, CalFresh, general assistance, Medi-Cal, Supplemental Security Income/State Supplementary Payment Program, or California Special Supplemental Nutrition Program for Women, Infants, and Children, or the customer declares that the household's annual income is less than 200 percent of the federal poverty level; and,

Sewer Rule No. 11  
Discontinuance And Restoration Of Service

B. Discontinuance of Services by Utility (Continued)

1. For Nonpayment of Bills (Continued)

e. Residential Health and Safety Exception. (Continued)

(iii) The residential customer is willing to enter into an amortization agreement, alternative payment schedule, or a plan for deferred or reduced payment consistent with the utility's written policy on discontinuance of service due to nonpayment of bills\*.

\*The written policy is available at <https://www.gswater.com/policy-of-discontinuation/>

- (2) If all three of the above conditions are met, the utility shall offer the customer one or more of the following options:
- (i) Amortization of the unpaid balance.
  - (ii) Participation in an alternative payment schedule.
  - (iii) A partial or full reduction of the unpaid balance financed without additional charges to other ratepayers.
  - (iv) Temporary deferral of payment.
- (3) The utility may choose which of the payment options the customer undertakes and may set the parameters of that payment option. The repayment option offered should result in repayment of any remaining outstanding balance within 12 months.
- (4) Notwithstanding the above, residential service may be discontinued to any customer meeting the conditions above who:
- (i) Does not agree to or comply with an amortization agreement, an alternative payment schedule, or a plan for deferred or reduced payment after incurring delinquent charges for 60 days or more,
- OR
- (ii) After agreeing to an amortization agreement, an alternative payment schedule, or a plan for deferred or reduced payment for delinquent charges, the customer does not pay her or his current residential service charges for 60 days or more.

Notice of discontinuation for either of these reasons will be posted in a prominent and conspicuous location at the property no less than 5 business days before discontinuing such service, but such notice shall not entitle the customer to further investigation or alternative payment arrangements by the utility.



Sewer Rule No. 11  
Discontinuance And Restoration Of Service

B. Discontinuance of Services by Utility (Continued)

1. For Nonpayment of Bills (Continued)

f. Other Disconnection Terms

A customer's residential service may be discontinued for nonpayment of a bill for residential service previously rendered her or him at any location served by the utility.

A nonresidential service may be discontinued for nonpayment of a bill for residential as well as nonresidential service previously rendered her or him at any location served by the utility.

The discontinuance of service notice as set forth in subdivision (b) will be given in both cases stated above before discontinuance of service takes place.

Residential services will not, however, be discontinued for nonpayment of bills for separate nonresidential service.

g. Timing of Disconnection

Service will not be discontinued by reason of delinquency in payment for service on any Saturday, Sunday, legal holiday, or at any time during which the business offices of the utility are not open to the public. The utility will avoid disconnection of service on Fridays and a day prior to a holiday. The utility will inform customers of the option to reconnect during regular business hours to avoid the more costly fees associated with after-hours service.

h. Where the owner, manager, or operator of the dwelling, structure, or park is listed by the utility as the customer of record, and sewer service is provided to residential occupants in a detached single-family dwelling, a multi-unit residential structure, mobilehome park, or permanent residential structure in a labor camp the utility will make every good faith effort to inform the residential occupants, by written notice in conformance with Sewer Rule No. 8.A.3.b.

(1) Where said occupants are individually metered.

The utility is not required to make service available to these occupants unless each user agrees to the terms and conditions of service and meets the requirement of the law and the utility's rules and tariffs.

Sewer Rule No. 11  
Discontinuance And Restoration Of Service

## B. Discontinuance of Services by Utility (Continued)

## 1. For Nonpayment of Bills (Continued)

## h. (Continued)

However, if one or more occupants are willing and able to assume responsibility for subsequent charges by these occupants to the account to the satisfaction of the utility, or if there is a practical physical means, legally available to the utility of selectively providing services to these occupants who have met the requirements of the utility's rules and tariffs, the utility will make service available to these occupants.

## (2) Where said occupants are master metered.

The utility is not required to make service available to these occupants unless each occupant agrees to the terms and conditions of service, and meets the requirements of the law and the utility's rules and tariffs and the following:

The same Sewer Rule 11, item B.1.h. (1) above which applies to individually metered occupants also applies to master metered occupants, except a representative may act on the behalf of a master metered occupant, and the utility will not discontinue service in any of the following situations:

- (i) During the pendency of an investigation by the utility of a master-meter customer dispute or complaint.
- (ii) When the master-metered customer has been granted an extension of the period for repayment of a bill.
- (iii) For an indebtedness owned by the master-metered customer to any other person or corporation or when the obligation represented by the delinquent account or any other indebtedness was incurred with a person or corporation other than the utility demanding payment therefor.
- (iv) When a delinquent account relates to another property owned, managed, or operated by the master-metered customer.
- (v) When a public health or building officer certifies that discontinuance would result in a significant threat to the health or safety of the residential occupants or the public. Proof of age or disability are described in Sewer Rule No. 11.B.1.e.

Sewer Rule No. 11  
Discontinuance And Restoration Of Service

- B. Discontinuance of Services by Utility (Continued)
1. For Nonpayment of Bills (Continued)
- i. Residential Customer's Remedies Upon Receipt of Discontinuance Notice for Nonpayment.
- (1) If upon receipt of a discontinuance notice, a residential customer is unable to pay, she or he must contact the utility before discontinuance of service to make payment arrangements to avoid discontinuance of service.
  - (2) If, after contacting the utility, the residential customer alleges to the Commission an inability to pay and that she or he is unable to make payment arrangements with the utility she or he should contact the Commission's Consumer Affairs Branch (CAB) to make an informal complaint. To maintain uninterrupted service this action must be taken prior to discontinuation of service as defined in the provided notice.
  - (3) The CAB's resolution of the matter should be reported to both the utility and the residential customer within ten business days after receipt of the informal complaint. If the customer is not satisfied with such resolution, such customer may file, within ten business days after the date of the CAB's letter, a formal complaint with the Commission under Public Utilities Code Section 1702 on a form provided by the CAB.
  - (4) Failure of any customer to observe these time limits prescribed herein shall entitle the utility to insist upon payment or, upon failure to pay, to proceed to discontinue the customer's residential service in accordance with the utility's rules.

Sewer Rule No. 11  
Discontinuance And Restoration Of Service

B. Discontinuance of Services by Utility (Continued)

1. For Nonpayment of Bills (Continued)

j. Designation of a Third-Party Representative (Older Adult or Disabled only)

- (1) Customer must inform utility if she or he desires that a third party receive discontinuance or other notices on her or his behalf.
- (2) Utility must be advised of name, address and telephone number of third party with a letter from third party accepting this responsibility.
- (3) Only customers who certify that they are older adults age 62 or over or disabled are entitled to third-party representation. Proof of age must be supported by certificate of birth, driver's license, passport or other reliable document. Proof of disability must be by certification from a licensed physician, public health nurse or social worker.

2. For Noncompliance with Rules

The utility may discontinue service to any customer for violation of these rules after it has given the customer at least five days' written notice of such intention. Where health and safety, the environment, or natural resources are threatened, service may be discontinued immediately without notice.

3. For Unsafe Apparatus or Where Service is Detrimental or Damaging to the Utility or its Customers

If an unsafe or hazardous condition is found to exist on the customer's premise, or if the generation of sewage thereon by apparatus, appliances, equipment or otherwise is found to be detrimental or damaging to the utility or its customers, the service may be shut off without notice. The utility will notify the customer immediately of the reasons for the discontinuance and the corrective action to be taken by the customer before service can be restored.

Sewer Rule No. 11  
Discontinuance And Restoration Of Service

B. Discontinuance of Services by Utility (Continued)

4. For Fraudulent Use of Service

When the utility has discovered that a customer has obtained service by fraudulent means, the service to that customer may be discontinued without notice. The utility will not restore service to such customer until that customer has complied with all rules and reasonable requirements of the utility and the utility has been reimbursed for the full amount of the service rendered and the actual cost to the utility incurred by reason of the fraudulent use.

C. Restoration of Service

1. Reconnection Charge

Where service has been discontinued for violation of these rules or for nonpayment of bills, the utility may charge \$40.00 for reconnection of service during regular working hours or \$120.00 for reconnection of service at other than regular working hours when the customer has requested that the reconnection be made at other than regular working hours, except as otherwise provided by the utility's tariffs.

2. To be Made During Regular Working Hours

The utility will endeavor to make reconnections during regular working hours on the day of the request, if the conditions permit; otherwise reconnections will be made on the regular working day following the day the request is made.

3. To Be Made at Other Than Regular Working Hours

When a customer has requested that the reconnection be made at other than regular working hours, the utility will reasonably endeavor to so make the reconnection if practicable under the circumstances.

4. Wrongful Discontinuance

A service wrongfully discontinued by the utility must be restored without charge for the restoration to the customer within 24 hours.

Sewer Rule No. 11  
Discontinuance And Restoration Of Service

## C. Restoration of Service (Continued)

## 5. Limits on Certain Reconnection Charges

For a residential customer who demonstrates household income below 200 percent of the federal poverty line (or is otherwise deemed by the Water Shutoff Protection Act as having a household income of below 200 percent of the federal poverty line), charges shall be limited as follows:

- a. For reconnections during regular working hours, the lesser of the actual cost (as stated in Sewer Rule No. 11.C.1) or \$50.00; and
- b. For reconnections during other than regular working hours, the lesser of the actual cost (as stated in Sewer Rule No. 11.C.1) or \$150. The cap on these reconnection fees (\$50 and \$150, respectively) shall be subject to an annual adjustment for changes in the Consumer Price Index beginning January 1, 2021.

## D. Refusal to Serve

## 1. Conditions for Refusal

The utility may refuse to serve an applicant for service under the following conditions:

- a. If the applicant fails to comply with any of the rules as filed with the Public Utilities Commission.
- b. If the intended use of the service is of such a nature that it will be detrimental or injurious to existing customers.
- c. If, in the judgment of the utility, the applicant's installation for utilizing the service is unsafe or hazardous, or of such nature that satisfactory service cannot be rendered.
- d. Where service has been discontinued for fraudulent use, the utility will not serve an applicant until it has determined that all conditions of fraudulent use or practice has been corrected.

## 2. Notification to Customers

When an applicant is refused service under the provisions of this rule, the utility will notify the applicant promptly of the reason for the refusal to serve and of the right of applicant to appeal the utility's decision to the Public Utilities Commission.

Sewer Rule No. 12  
Information Available To Public

A. General Information

The utility will maintain, open for public inspection on its Internet website ([www.gswater.com](http://www.gswater.com)) or upon request, provide electronically or by United States Postal Service (USPS), pertinent information regarding the service rendered including the following:

1. Characteristics of Sewage

A description in writing of the kind of sewage to be accepted and the conditions of acceptance.

2. Rates and Rules

A copy of the tariff schedules consisting of rates, general rules of the utility, service area maps and forms of contracts and applications applicable to the territory served from that office.

3. Reading Meters

Information about method of reading meters.

4. Bill Analysis

A statement of the most recent past readings of the meter or meters serving a customer's own premises for a period of two years.

B. Rates and Optional Rates

The utility will explain to every applicant for service each rate schedule which is applicable, and of the applicant's right to elect therefrom the option under which service is desired.

C. New or Revised Rates

Should new or revised rates be established, they utility will duly notify all customers affected.

D. Change of Rate Schedule by Customer

1. Should a customer elect to take service under a different applicable rate schedule, the change will become effective immediately after the regular meter reading next

Sewer Rule No. 12  
Information Available To Public

D. Change Rate Schedule by Customer (Continued)

following the date of such request for metered service and at the beginning of the regular billing period next following such request for flat rate service. The utility may refuse to permit such a change unless service has been taken under the current rate schedule for a period of not less than 12 months, except such change will be permitted when an applicable new or revised rate schedule is first put into effect or the customer's operations have so changed as to justify immediate transfer to a different schedule.

2. When service is furnished on an annual or seasonal basis, a change in schedule may be made only at the end of a regular billing period.



Sewer Rule No. 13  
Temporary Service

A. Establishment of Temporary Service

1. The utility will, if no undue hardship to its existing customers would result therefrom, furnish temporary service when the applicant has requested service on this basis or the utility reasonably expects the service to be temporary and the applicant therefore has:
  - a. Advanced to the utility the estimated net cost of installing and removing the facilities necessary to furnish the service; and;
  - b. (1) Deposited a sum of money equal to the estimated bill when the duration of service is to be for a period of one month or less, subject to adjustment and refund or repayment in accordance with the actual bill due upon discontinuance of the service,  
or  
(2) Established credit in the same manner as is prescribed for permanent service when the duration of service is to exceed one month.
2. Adjustment of any differences between the estimated net cost advanced and the actual cost of installing and removing the facilities necessary to furnish the service, including reasonable costs for depreciation and consumption of such facilities, will be made within 10 days after the utility has ascertained such actual cost. The actual cost thus advanced is not subject to refund except as hereinafter provided.

B. Change to Permanent Status

1. In the event a temporary service becomes permanent, the utility will refund the amount advanced for the temporary service when a main extension is not involved if the service is the first for the lot as defined in the original subdivision map.
2. Where a main extension to an individual is involved, exclusive of an extension to serve a real estate development or subdivision, service which was initiated as

Sewer Rule No. 13  
Temporary Service

B. Change to Permanent Status (Continued)

2. (Continued)

temporary service hereunder when continued for 36 consecutive months, and at the end of that period appears to be of permanent and established character and is received at a premises improved with structures of a permanent nature, will be then treated as though it had been initially furnished on a permanent basis in accordance with Sewer Rule No. 15, Main Extensions. The amount advanced for the temporary service will be applied in full by the utility to the balance of any advance then due under such application of said main extension rule; any excess thereof over any such balance will be refunded by the utility.

C. Rates, Charges and Conditions for Service

Rates, charges and conditions for temporary service will be the same as those prescribed for permanent service except as are herein otherwise provided.

Sewer Rule No. 14  
Continuity of Service

A. Emergency Interruptions

The utility will make all reasonable efforts to prevent interruptions to service and when such interruptions occur will endeavor to re-establish service with the shortest possible delay consistent with the safety to its customers and the general public.

B. Scheduled Interruptions

Whenever the utility finds it necessary to schedule an interruption to its service, it will, where feasible, notify all customers to be affected by the interruption, stating the approximate time and anticipated duration of the interruption. Scheduled interruptions will be made at such hours as will provide least inconvenience to the customers consistent with reasonable utility operations.

Sewer Rule No. 15  
Main Extensions

A. Responsibility

All main extensions shall be the responsibility of the developer and shall be built to specifications provided by the utility. Upon completion and acceptance by the utility, all sewer facilities shall be transferred to the utility. Upon transfer, the utility shall be provided a bill of materials and a detailed cost summary of facilities installed.

Sewer Rule No. 16  
Service Connections, Meters, And Customer's Facilities

A. General

1. Utility's Responsibility

- a. (1) In urban areas with dedicated front streets, rear service roads, or public utility easements, the Utility will furnish and install its portion of the service pipe at its own expense for the purpose of connecting its collection system to the customer's piping, except for temporary services and as otherwise provided in Sewer Rule No. 15, Main Extensions. The connection to the customer's portion of the service will be installed at a convenient place between the property line and the curb, or inside the customer's property line where necessary.
- (2) In areas which do not have dedicated front streets, rear service roads, or public utility easements the utility will furnish and install the service pipe as above provided but at a convenient point on or near the customer's property except for service beyond the service area. A non-exclusive utility easement shall be obtained for installations on the customer's property.
- b. Where the charge for sewer service is based on metered water consumption, the sewer utility will arrange with the water utility for permission to use water meter readings unless such service is also provided by the utility providing the sewer service. In this case, the water meter readings would be used as obtained by the utility in its normal course of providing service.

2. Customer's Responsibility

a. Condition Precedent to Receiving Service

The customer as a condition precedent to receiving service shall:

- (1) Conform sewer facilities to the Utility's Standard Plans and Specifications. Some of the utility mains are force mains and may require special engineering.
- (2) Furnish and lay the necessary piping to make the connection from the service connection to any structures on the customer's premises, including septic tank and appurtenances thereto, if present and remaining in service, and shall keep such piping in good repair in accordance with such reasonable requirements of the utility as may be incorporated in its rules herein.
- (3) If a septic tank is to be disconnected and replaced by a connection to the sewer facilities, the septic tank and appurtenances thereto shall be disconnected and abandoned in accordance with utility requirements and applicable public health standards.
- (4) Where required to pre-treat the waste stream prior to delivery of waste stream into the utility main, customers are required to install and maintain a separate pre-treatment facility, the design, construction and location of which must be approved by the utility. The utility shall be consulted before installation thereof and its approval of location secured. The pre-treatment facility must be designed and constructed in accordance with local, state and federal regulations and laws.

Sewer Rule No. 16  
Service Connections, Meters, And Customer's Facilities

2. Customer's Responsibility (Cont'd)

- b. The customer is responsible for all onsite sewer lines located beyond the utility's clean out located on the sewer lateral. The utility shall be consulted before installation thereof and its approval of location secured.

3. Ownership and Absence of Rental Obligation Where Facilities Are on Premises of Customer.

- a. The service pipe and related appurtenances furnished by or on behalf of the utility and located wholly or partially upon a customer's premise are the property of the utility.
- b. No rent or other charge will be paid by the utility where the utility-owned service facilities are located on a customer's premises.

4. Access to Premises of Customer

- a. The utility shall at all reasonable hours have access to property owned by it which may be located on customer's premises for purposes of installation, maintenance, operation or removal of the property at the time service is to be terminated. The customer's system should be open for inspection at all reasonable times to authorized representatives of the utility. In the event of an emergency, as determined by the utility, access shall be granted at any time and outside of reasonable hours.
- b. Any inspection work or recommendations made by the utility or its agents in connection with plumbing, fixtures or use of sewer service on customer's premises, either as a result or a complaint or otherwise, will be made without charge, provided that the customer's plumbing, fixtures and sewer service conform to the utility rules as set forth herein.

5. Responsibility for Loss or Damages

- a. The utility will not be responsible for any loss or damage caused by any negligence or wrongful act of a customer or of a customer's authorized representatives in installing, maintaining, operating or using any or all appliances, facilities or equipment for which service is supplied.
- b. The customer will be held responsible for damage to utility's meters and other property resulting from the use or operation of appliances and facilities on customer's premises, discharge of wastes prohibited by these rules, or denial of access to the customer's property to effectuate necessary repairs of the utility's facilities.

Sewer Rule No. 16  
Service Connections, Meters, And Customer's Facilities

B. Services

1. Size of Service Pipe

- a. The minimum size of a gravity service pipe shall be 4-inch nominal size. Force service lines shall be 2-inch nominal size.

C. Cross-Connections

1. Physical Connection

No physical connection between the sewer system of the public utility and that of any other sewer system will be permitted except as authorized by the utility.

2. Backflow Preventers Required

The utility recommends the installation of approved backflow protection devices where the circumstances are such that there is special danger of backflow of sewage onto the customer's premises.

3. Type and Expense of Backflow Preventers

Any backflow preventer utilized shall be of the type and design specified and approved for the circumstances by the State Department of Health and such device shall be installed by and at the expense of the customer, in a manner approved by the utility and the public health agency having jurisdiction when so required, and in a location which is readily available for periodic inspection.

4. Periodic Inspection of Backflow Preventers

Whenever backflow protective devices are installed, the customer shall have competent inspections made thereof at least once a year, or more often in those instances where successive inspections indicate repeated failure thereof. These devices shall be repaired, overhauled or replaced at the expense of the customer whenever they are found to be defective. Records of such tests, repairs and overhaul shall be kept and made available to the utility and the public health agency having jurisdiction.

Sewer Rule No. 17  
Standards For Measurement Of Service

The Standards for Measurement of Service are contained in General Order No. 103 and, therefore, are not reprinted under this rule.



Sewer Rule No. 18  
Meter Tests And Adjustment Of Bills For Meter Error

Where Sewer Charges are Based on Metered Water Usage

A. Tests on Customer Request

1. Compliance by utility

- a. Where sewer utility and water utility are the same or affiliated, the utility will within one week after request by a customer proceed to test the water meter serving the customer's premises, except where service is rendered from open conduits such test may be deferred for a reasonable length of time when it would necessitate the interruption of service to any other customer. Such test of meters, other than displacement meters for which standards of accuracy are established in General Order No. 103, Measurement of Service, will consist of an acceptable method of verifying the accuracy of the meter.
- b. Where water utility is independent of sewer utility, sewer utility will arrange for such tests.

2. Charge for Test

No charge will be made for the test of a meter made at the request of a customer, except where a customer requests a test within six months after installation of the sewer service or more often than once a year, in which cases the customer shall be required to pay the actual cost of such tests.

3. Test Procedure

Every meter tested at the request of a customer will be tested in the condition as found in the customer's service prior to any alteration or adjustment in order to determine the average meter error. This test will consist of testing at the three rates of flow as determined in General Order No. 103 under "Accuracy Requirements of Water Meters", and in addition, at twice the minimum test flow. The average meter error will be considered to be the algebraic average of the errors of the three highest test flows.

4. Return of Deposit

Any deposit made under paragraph 2, above, will be returned to the customer if the average meter error is found to be more than 2% fast. The customer will be notified not less than five days in advance of the time and place of the test.

Sewer Rule No. 18  
Meter Tests And Adjustment Of Bills For Meter Error

Where Sewer Charges are Based on Metered Water Usage (Continued)

5. Location of Test

A customer will have the right to require the utility to conduct the test in such customer's presence or in the presence of a representative of such customer. Where the utility has no proper meter testing facilities available locally, the meter may be tested by a meter manufacturer or its agency, or by any other reliable organization equipped for water meter testing or by the utility's meter testing plant where located in some other community, in which latter case the utility upon demand of the customer will furnish the customer with a notarized statement certifying as to the method used in making the test and as to the accuracy of the meter.

6. Report of Test to Customer

A report showing the results of the test will be furnished to the customer within 15 days after the completion of the test.

B. Adjustment of Bills for Meter Error

1. Fast Meters

When, upon test, a meter is found to be registering more than 2% fast, the utility will refund to the customer the amount of the overcharge based on corrected meter readings for the period the meter was in use but not to exceed a period of six months.

2. Slow Meters

a. Commercial Service

When, upon test, a meter used for commercial (residential and business) service is found to be registering more than 25% slow, the utility may bill the customer for the amount of the undercharge based upon corrected meter readings for the period the meter was in service but not to exceed a period of three months.

Sewer Rule No. 18  
Meter Tests And Adjustment Of Bills For Meter Error

Where Sewer Charges are Based on Metered Water Usage (Continued)

2. Slow Meters (Continued)

b. Other than Commercial Service

When, upon test, a meter used for commercial service, is found to be registering more than 5% slow, the utility may bill the customer for the amount of the undercharge based upon corrected meter readings for the period the meter was in service but not to exceed a period of three months.

3. Nonregistering Meters

The utility may bill the customer for sewer service based on water consumed while the meter was nonregistering, but not to exceed a period of three months, at the minimum monthly meter rate, or upon an estimate of the consumption based upon the customer's prior use during the same season of the year if conditions were unchanged, or upon an estimate based upon a reasonable comparison with the use of other customers during the same period receiving the same class of service under similar circumstances and conditions.

4. General

When it is found that the error in a meter is due to some cause, the date of which can be fixed, the overcharge or the undercharge will be computed back to but not beyond such date.

Sewer Rule No. 19  
Service To Separate Premises And Multiple Units, And Resale Of Sewer Service

A. Number of Services to Separate Premises

Separate premises under single control or management will be supplied through separate individual service pipes unless the utility elects otherwise.

B. Service to Multiple Units on Same Premises

Separate houses, buildings, living or business quarters on the same premises or on adjoining premises, under a single control or management, shall be served through a single service pipe to supply the entire premises in which case a service charge equivalent to the number of dwelling units connected to the sewer system will be applied. If multiple septic tanks are installed on the premises, and if the septic tanks are not disconnected and abandoned, the service charge shall reflect the number and size of all tanks.

The responsibility for payment of charges for all service furnished to combined units through a single service pipe, in accordance with these rules, must be assumed by the applicant.

C. Resale of Sewer Service

Except by special agreement with the utility, no customer shall resell any of the sewer service received from the utility by accepting sewage not generated on the premises served and discharging it to the utility through the customer's service.

Sewer Rule No. 20  
Regulations Regarding Sewer Use

A. Prohibited Discharges

No person shall discharge or cause to be discharged into any sewer works any stormwater, surface water, groundwater, roof runoff, subsurface drainage, uncontaminated cooling water, or industrial process water that violates applicable state and federal regulations and limitations established by the applicable local sewer treatment agency.

B. Service Subject to Special Conditions

Every commercial, institutional or industrial applicant for service will be required to furnish the utility with an estimate of the quantity and characteristics of the wastes proposed to be discharged into the sewer line. If in the utility's judgment, the waste discharge will have a deleterious effect upon the sewer works, processes, plant, equipment, create a hazard to life, constitute a public nuisance, , or violate Sewer Rule 20, the utility may:

1. Reject the wastes.
2. Require pretreatment (e.g. grease traps) to an acceptable condition prior to discharge into the sewer.
3. Require control over quantities and rates of discharge.
4. Require the construction of control manholes for the purpose of monitoring, measuring and testing the quantity and characteristics of sewage to be discharged.
5. Require, as a condition of service, periodic reports on flows and characteristics of discharged wastes to ensure compliance with the rules of the utility and conditions of service.

C. Preliminary Treatment of Wastes

Where pretreatment, monitoring, measuring and testing facilities are required they shall be maintained continuously and operated in satisfactory and effective manner at applicant's expense. The utility has the right to inspect any pretreatment, monitoring, measuring and testing facilities to ensure satisfactory maintenance and operation.

Sewer Rule No. 21  
Military Family Program

**A. General**

The purpose of this Program is to implement the California Military Families Relief Act of 2005 by providing sewer utility service shutoff protection for a 180 day period to families of service members who are called to active duty.

**B. Definitions**

1. "Service member" means both of the following:
  - A. Members of the militia called or ordered into active state service by the Governor pursuant to Section 143 or 146 or into active federal service by the President of the United States pursuant to Title 10 or 32 of the United States Code.
  - B. Reservist of the United States Military Reserve who have been called to full-time active duty.
2. "Military service" means full-time active state service or full-time active federal federal service, as defined in paragraph A above, or full-time active duty of a reservist, as defined in paragraph B above, or a period of 30 consecutive days.
3. "Qualified customer" means the customer of record of a qualified household.
4. "Qualified household" is a residential household for which the income is reduced because the customer of record, the spouse of the customer of record, or the registered domestic partner of the customer of record, as defined by Section 297.5 of the Family Code, is a service member called to full-time active military service by the President of the United States or the Governor of this state during a time of declared national or state of emergency or war.

**C. Application for Protection**

Application for shutoff protection shall be submitted in writing to the utility at its regular business office and accompanied by a copy of the activation or deployment order of a service member that specifies the duration of the active service. The Application shall include: "I understand that the protection afforded by the Act only defers the time of payment of all water and sewer charges and does not waive or cancel them".

A qualified customer receiving assistance under this rule shall notify the Company if the active duty status of the service member is either shortened or extended. If the qualified customer moves out of the residence that is receiving shutoff protections, he/she shall provide the company a written notice that includes the date of service termination and a valid forwarding address.

Sewer Rule No. 21  
Military Family Program

**D. Shutoff Protection**

Shutoff protection provided by this rule is for a period of 180 days. The Company may but is not required to grant extensions after the initial 180-day period.

**E. Payment for Utility Services**

The shutoff protection provided under this section shall not void or limit the obligation of the qualified customer to pay for utility services received during the time of assistance.

The Company and its qualified customer shall establish a repayment plan requiring minimum monthly payments that allows the qualified customer to pay any past due amounts over a reasonable time period not to exceed one year after the service member's release from active military duty.

The utility will not charge late payment fees or interest to the qualified customer during the period of military service or the repayment period.

**F. General Provisions Applicable to This Rate**

This tariff shall not affect or amend any rules or orders of the Public Utilities Commission pertaining to billing standards.

If the terms and conditions under this section are not followed by the qualified customer, the Company may follow its procedures and rules on customer standards and billing practices for providing residential water and sewer services.

**G. Notification of Customers**

The Company will notify all customers of the availability of the program two times a year using an insert in the water bill.

Sewer Rule No. 22  
Customer Information Sharing

A. **General**

This rule establishes the guidelines for the release of specific customer information to prescribed entities, if requested. This information will be used for the sole purpose of the calculation of local taxes, sewer fees, miscellaneous city fees and water conservation efforts, whereby the calculation of these fees and/or efforts depends on data held by Golden State Water Company ("GSWC"). GSWC will enter into non-disclosure agreements with the entities to insure that the customer information shared is kept private and only used for the sole purpose for which it is intended for.

*Please note: A copy of GSWC's sample Non-Disclosure Agreement can be found in its tariffs as Form No. 24.*

Golden State Water Company will only release the following information to local government (city and county) and wholesale water agencies, if requested, for the purpose discussed above:

Customer name  
Service Address  
Water consumption data, if applicable\*

\* This data may include service establishment and termination dates.

If a local government entity requires additional information or intend to use the information for purposes other than what is mentioned above, GSWC will inform the entity it cannot release that information without having received prior customer consent to do so.



**NOTIFICATION OF APPLICATION FILING BY GOLDEN STATE WATER COMPANY  
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO ESTABLISH A  
NON-CONTIGUOUS SERVICE AREA TO PROVIDE PUBLIC UTILITY WATER AND SEWER  
SERVICE IN SAN BENITO COUNTY AND ESTABLISH RATES FOR SERVICE  
APPLICATION 23-12-0xx**

Golden State Water Company (GSWC) filed Application 23-12-0xx with the California Public Utilities Commission (CPUC) for a Certificate of Public Convenience and Necessity (CPCN) to establish a non-contiguous service area, the San Juan Oaks Customer Service Area, to provide public utility water and sewer service in San Benito County as part of a new San Juan Oaks Specific Plan, and to establish rates for those services.

GSWC seeks a CPCN from the CPUC to provide public utility water and sewer services to new customers at San Juan Oaks, a master-planned community in San Benito County currently under development by San Juan Oaks Owner, LLC (Developer). The community will include residences, parks, a community amenity center, open space areas, commercial space, a golf course, a resort hotel, agricultural preserves, and associated infrastructure. Water and sewer services for the service area are required as part of this development.

On November 3, 2015, the County of San Benito Board of Supervisors approved the Project Specific Plan, and the Developer is currently undertaking the development and construction of the Project. San Juan Oaks Mutual Water Company (SJO Mutual), a mutual water company formed by the Developer, will provide the water and sewer services for the Project while this application is pending approval.

The Developer desires that GSWC provide the water and sewer services for the Project. Upon issuance of the CPCN from the CPUC requested by this application, GSWC will replace SJO Mutual as the water and sewer service provider for the Project.

GSWC estimates that by the end of 2025, the first year of GSWC's anticipated ownership of the system, 200 residential customers will require water and sewer service. GSWC proposes to establish water and sewer service rules and rates for the San Juan Oaks Customer Service Area in this application. There are currently no residents at the Project site.

**CPUC Process**

This application will be assigned to a CPUC Administrative Law Judge, who will consider proposals and evidence presented during the formal hearing process. The Administrative Law Judge will issue a proposed decision, which may adopt GSWC's application, modify it, or deny it. Any CPUC commissioner may sponsor an alternate decision with a different outcome. The proposed decision, and any alternate decisions, will be discussed and voted upon by the CPUC commissioners at a public CPUC Voting Meeting.

Parties to the proceeding may review GSWC's application, including the Public Advocates Office, which is an independent consumer advocate within the CPUC that represents customers to obtain the lowest possible rate for service consistent with reliable and safe service levels. For more information about the Public Advocates Office, please call 1-415-703-1584, email [PublicAdvocatesOffice@cpuc.ca.gov](mailto:PublicAdvocatesOffice@cpuc.ca.gov), or visit [PublicAdvocates.cpuc.ca.gov](http://PublicAdvocates.cpuc.ca.gov).

**Where can I get more information?**

**Contact GSWC**

**Email:** GSWC\_Reg\_Affairs@gswater.com

**Mail:** Golden State Water Company  
Attn: Regulatory Affairs Department  
630 East Foothill Boulevard  
San Dimas, California 91773-9016

A copy of the application and any related documents may also be reviewed at:  
**gswater.com/XXXXXXX**

**Contact CPUC**

Please visit **apps.cpuc.ca.gov/c/A2312XXX** to submit a comment about this proceeding on the CPUC Docket Card. Here you can also view documents and other public comments related to this proceeding.

Your participation, by providing your thoughts on GSWC's request, can help the CPUC make an informed decision.

If you have questions about CPUC processes, you may contact the CPUC's Public Advisor's Office at:

Phone: 1-866-849-8390 (toll-free)  
Email: Public.Advisor@cpuc.ca.gov  
Mail: CPUC Public Advisor's Office  
505 Van Ness Avenue  
San Francisco, CA 94102

Please reference **Application 23-12-0xx** in any communications you have with the CPUC regarding this matter.

**GOLDEN STATE WATER COMPANY**

BEFORE THE BOARD OF SUPERVISORS, COUNTY OF SAN BENITO

AN ORDINANCE APPROVING A ) Ordinance No. 942
DEVELOPMENT AGREEMENT FOR THE )
DEL WEBB AT SAN JUAN OAKS PROJECT )

The Board of Supervisors of the County of San Benito, State of California does ordain as follows:

SECTION 1.

The Pulte Home Corporation and San Juan Oaks, LLC (collectively "Owner" or "Applicants"), owners of the parcels identified as APN's 018-190-023, 018-190-033, 018-190-034, 018-200-058, 021-140-046, 021-140-053, 018-200-056, 018-200--057, 021-140-054, 021-190-017, 021-190-006, 021-090-030, 021-190-031, 021-190-032, and 023-010-074 ("Project Site") which is described in and shown on the attached Exhibit A, which is incorporated herein by reference, have negotiated a Development Agreement with the County of San Benito, which is attached hereto and incorporated herein by reference as Exhibit B, pursuant to the Development Agreement Statute and the County Development Agreement Procedures. The Development Agreement is hereby approved. Development of the San Juan Oaks Project on the Project Site shall be governed by the terms of the Development Agreement and the Specific Plan. The Project Site is hereby designated to be subject to the Development Agreement insofar as such development implements the terms of the Specific Plan and all other County Approvals and subsequent approvals, as set forth more fully in the Development Agreement. To the extent any conflict may exist between the provisions reflected in County Code, Title 19, Chapter 19.11 and the provisions reflected in the Development Agreement, the Board hereby ordains that for purposes of the San Juan Oaks Specific Plan Project, the provisions in the San Juan Oaks Development Agreement shall prevail and hereby amend Chapter 19.11 accordingly.

SECTION 2. Findings

A. The Development Agreement was processed in accordance with Government Code section 65864 et seq. and the subject development project and Development Agreement are consistent with San Benito County Code, Title 19, Chapter 19.11. The Owners have a legal and/or equitable interest in the Project Site, which is the subject of the Development Agreement, which makes each of said Owners an eligible party to said agreement under Government Code § 65865 and County Code sections 19.11.002 and 19.11.004. As set forth more fully in the Development Agreement (Exhibit B) and in accordance with applicable law, the Development Agreement addresses, among other things, the duration of the Development Agreement; the permitted uses of the Property; the density and intensity of uses; provisions for reservation or dedication of land for public purposes; conditions, terms, restrictions and requirements for subsequent discretionary actions; provisions for the timing of construction; terms and conditions relating to applicant financing of the necessary public facilities and subsequent reimbursement and/or credits over time; standard contract clauses including those for organizational, introductory, and implementation purposes; an indemnification clause; specification of the elements of the development project that are intended to vest; an assignability clause; and any limitations on the applicability of the Development Agreement with regard to future discretionary review. The Development

1 Agreement application was filed with the Director of Planning, in accordance with County  
2 Code section 19.11.007. The complete application included all the required content under  
3 County Code section 19.11.007(b), including, without limitation, the proposed agreement;  
4 sufficient documentation to facilitate CEQA review; and the required fee deposit to facility  
5 review by San Benito County. The application is on file at the San Benito County Resource  
6 Management Agency, Building and Planning Division.

7 B. The Development Agreement is consistent with the General Plan (as amended by the  
8 requested General Plan Amendment and as described more fully in Board of Supervisors  
9 Resolution No 2015-\_\_ (General Plan Amendment 13-14) and related consistency findings),  
10 the Specific Plan and the remaining portions of the County Code (as amended by the  
11 proposed Code Amendments), for the reasons set forth in Resolution No. 2015-\_\_,  
12 incorporated herein by reference.

13 C. The Development Agreement is compatible with the uses authorized in, and the regulations  
14 prescribed for, the applicable zoning of the Project Site (as amended pursuant to the Specific  
15 Plan). The Owners have concurrently processed the proposed zoning text and map  
16 amendments, including the creation of a new zoning designation referred to as "San Juan  
17 Oaks Specific Plan (SJO-SP)"; a rezoning of the Project Site to this new zoning designation;  
18 and other conforming amendments. The purpose of the County Code Amendments is to  
19 ensure consistency between the Project, which is the subject of the Development  
20 Agreement, and the County Code, as well as internal consistency. As part of its approval of  
21 the County Code Amendments, the Board of Supervisors, among other things, made  
22 determinations regarding the compatibility of the Project, which is the subject of the  
23 Development Agreement, with the uses authorized in, and the regulations prescribed for, the  
24 applicable zoning.

25 D. The Development Agreement is consistent with and best serves the public health, safety and  
26 general welfare of the County's citizens and good land use practice because, among other  
27 things, it provides for public benefits beyond those benefits that would be forthcoming  
28 through conditions of development project approvals as set forth herein. With regard to  
good land use practice, the Project, which is subject to the proposed Development  
Agreement, was prepared in accordance with the New Community Study Area Designation  
and other relevant policies in the County's 2035 General Plan Update. The New  
Community Study Area Designation is intended to allow higher levels of development as a  
means of directing anticipated growth to certain areas in San Benito County determined  
appropriate and able to provide adequate facilities and infrastructure to serve that increased  
growth, which, in turn, serves to protect and preserve more environmentally sensitive areas  
and more productive agricultural lands. In addition, the Project includes: the development  
of employment sites to promote County work opportunities by providing for approximately  
65,000 square feet in neighborhood commercial development, as well as additional hotel and  
assisted living/skilled nursing/memory care uses which could provide new employment  
opportunities; the construction and dedication of open space, parks and recreational facilities  
(as well as related funding for ongoing operation and maintenance) in excess of current  
requirements by including 114 acres of common area open space, approximately seven acres  
of private parks, approximately 16 acres of public community parks, approximately 41 acres  
of on-site agricultural preserve, approximately 1,243 acres of on-site permanent wildlife  
habitat and the provision for approximately 153 acres of agricultural preserve off-site  
throughout the Project Site and interconnects with the regional network; the facilitation of

1 alternative modes of transportation (e.g., non-motorized travel, use of public transit) through  
2 provision of an onsite neighborhood-serving commercial center for convenient shopping and  
3 services, a network of bicycle and pedestrian pathways connecting residential and  
4 commercial areas, bus turnouts and permitted home occupation uses; implementation of  
5 numerous sustainable design, siting and building features that include roof colors and  
6 materials that meet or exceed Energy Star requirements to reduce the heat island effect;  
7 energy and water-efficient appliances, fixtures, lighting, and windows that meet or exceed  
8 state energy performance standards; high-efficient air conditioners; and permitted home  
9 occupation uses; implementation of numerous sustainable design, siting and building  
10 features that include roof colors and materials that meet or exceed Energy Star requirements  
11 to reduce the heat island effect; energy and water-efficient appliances, fixtures, lighting, and  
12 windows that meet or exceed state energy performance standards; high-efficient air  
13 conditioners; Energy Star bath fans in each home. In addition, among others, the Project  
14 would encourage the following features: energy-efficient windows; rooftop solar panels,  
15 solar films, small-scale wind turbines, and other similar features to generate energy; small-  
16 scale wind turbines and solar heating and energy production panels and films; energy Star  
17 qualified (or equivalent rating system) models of mechanical equipment; and energy-  
18 efficient, low voltage exterior lighting; the formation of Geologic Hazard Assessment  
19 District (GHAD) to effectively respond to, address, and abate any identified geologic  
20 hazards within the Property; the formation of a Community Facilities District (CFD) or other  
21 financing district(s)/mechanisms to provide funding to County to be used to fund various  
22 public safety infrastructure, facilities, improvements and services as well as maintenance  
23 and operation of the Community Parks; payment of a Community Benefit Fee to the County  
24 totaling \$5,559,000, which shall be used in County's sole and absolute discretion as it deems  
25 appropriate for the benefit of the County, including, without limitation: general community  
26 benefits, street improvements, affordable housing, public safety services, library services,  
27 and communications; and an offer to dedicate to the County an approximately two (2) acre  
28 Public Safety Facility Site.

18 E. The Development Agreement will not adversely affect the orderly development of the  
19 surrounding community. In approving the Project, which is the subject of the Development  
20 Agreement, the Board of Supervisors has determined that development of the Project Site  
21 with the Project will implement the New Community Study Area Designation and related  
22 General Plan policies, which are intended to allow higher levels of development as a means  
23 of directing anticipated growth to certain areas in San Benito County determined appropriate  
24 and able to provide adequate facilities and infrastructure to serve that increased growth, as  
25 described more fully in the Specific Plan and the SEIR.

24 F. The Development Agreement is fair, just and reasonable based on, among other things: the  
25 Project provides a comprehensively planned vision for the Project Site that has been  
26 designated for increased urban growth; the Development Agreement provides assurances  
27 that all public benefits for which the Owners are obligated to provide are fulfilled as  
28 required thereunder; the development of a project will be designed cohesively, with a focus  
on sustainability and establishment of a variety of land uses that will serve the community's  
varied needs throughout the life of the Project; full environmental review of the Project was  
carried out under CEQA, and this process identified mitigation to reduce environmental  
impacts on the community to a less-than-significant level, where feasible, that must be  
implemented as conditions of approval; the Project was studied after a lengthy public  
process that involved a public comment period and multiple public hearings that were duly

1 noticed; various departments within the County government participated in the development  
 2 process and negotiations, such that the Project and conditions of approval express a wide  
 3 variety of interests and are intended to accomplish a diversity of goals; and the County will  
 4 receive numerous benefits associated with the Project, while the Owners will receive  
 certainty in terms of their investment and development of the Project in accordance with the  
 Development Agreement's provisions.

- 5 G. The development project associated with the Development Agreement should be  
 6 encouraged in order to meet important economic, social, environmental or planning goals of  
 7 San Benito County. With regard to planning goals, the Project, which is subject to the  
 8 Development Agreement, was prepared in accordance with the New Community Study Area  
 9 Designation and related General Plan policies, which are intended to allow higher levels of  
 10 development as a means of directing anticipated growth to certain areas in San Benito  
 11 County determined appropriate and able to provide adequate facilities and infrastructure to  
 12 serve that increased growth, which, in turn, protects and preserve other areas in the County  
 13 that are more environmentally sensitive or productive agricultural land. With regard to  
 14 economic and social goals, the Development Agreement also will facilitate the development  
 15 of approximately 65,000 square feet of neighborhood commercial development as well as  
 additional mixed uses, which will help to satisfy important goals of San Benito County to  
 provide for more employment opportunities and generate sales tax revenue, and also  
 imposes obligations on the Owners in connection with payment of a substantial Community  
 Benefit Fee and other monetary obligations. Moreover, the dwelling units proposed under  
 the Project, numbering up to 1,084, will help to address goals by San Benito County to  
 provide more housing options to residents.

### 16 SECTION 3. General Provisions

- 17 A. Severability: If any section, subsection, sentence, clause, or phrase of this ordinance is for  
 18 any reason held by a court of competent jurisdiction to be invalid or unconstitutional, such  
 19 decision shall not affect the validity of the remaining portions of this ordinance. The Board  
 20 of Supervisors hereby declares that it would have enacted this ordinance and each section,  
 subsection, sentence, clause or phrase thereof, irrespective of the fact that any one or more  
 sections, subsections, sentences, clauses or phrases be declared invalid or unconstitutional.
- 21 B. Captions: The titles and headings to the sections hereunder are not part of this ordinance  
 22 and shall have no effect upon the construction or interpretation of any part hereof.
- 23 C. Effective Date and Codification: This ordinance shall not be codified. This ordinance shall  
 24 take effect thirty (30) days after its adoption. The effective date of the Development  
 25 Agreement shall be the effective date of this Ordinance, so long as the Development  
 Agreement has been signed by the Owner and County pursuant to section 19.11.008(D) of  
 the San Benito County Code.
- 26 D. Publication: Within ten (10) days after its adoption, this ordinance shall be published  
 27 pursuant to California Government Code 6061 in its entirety in a newspaper of general  
 28 circulation which is printed, published and circulated within the County of San Benito, State  
 of California.

1 E. No Duty of Care: This ordinance is not intended to and shall not be construed or given  
2 effect in a manner that imposes upon the County, or any officer or employee thereof, a  
3 mandatory duty of care towards persons or property within the County or outside of the  
4 County so as to provide a basis of civil liability for damages, except as otherwise imposed  
5 by law.

6 PASSED AND ADOPTED BY THE BOARD OF SUPERVISORS OF THE COUNTY OF SAN  
7 BENITO THIS 3<sup>rd</sup> DAY OF NOVEMBER, 2015 BY THE FOLLOWING VOTE:

8 Ayes: Supervisor(s): Barrios, Rivas, De La Cruz, Botelho, Muenzer  
9 Noes: Supervisor(s): none  
10 Absent: Supervisor(s): none  
11 Abstain: Supervisor(s): none

12 By: Margie Barrios  
13 Margie Barrios, Chair

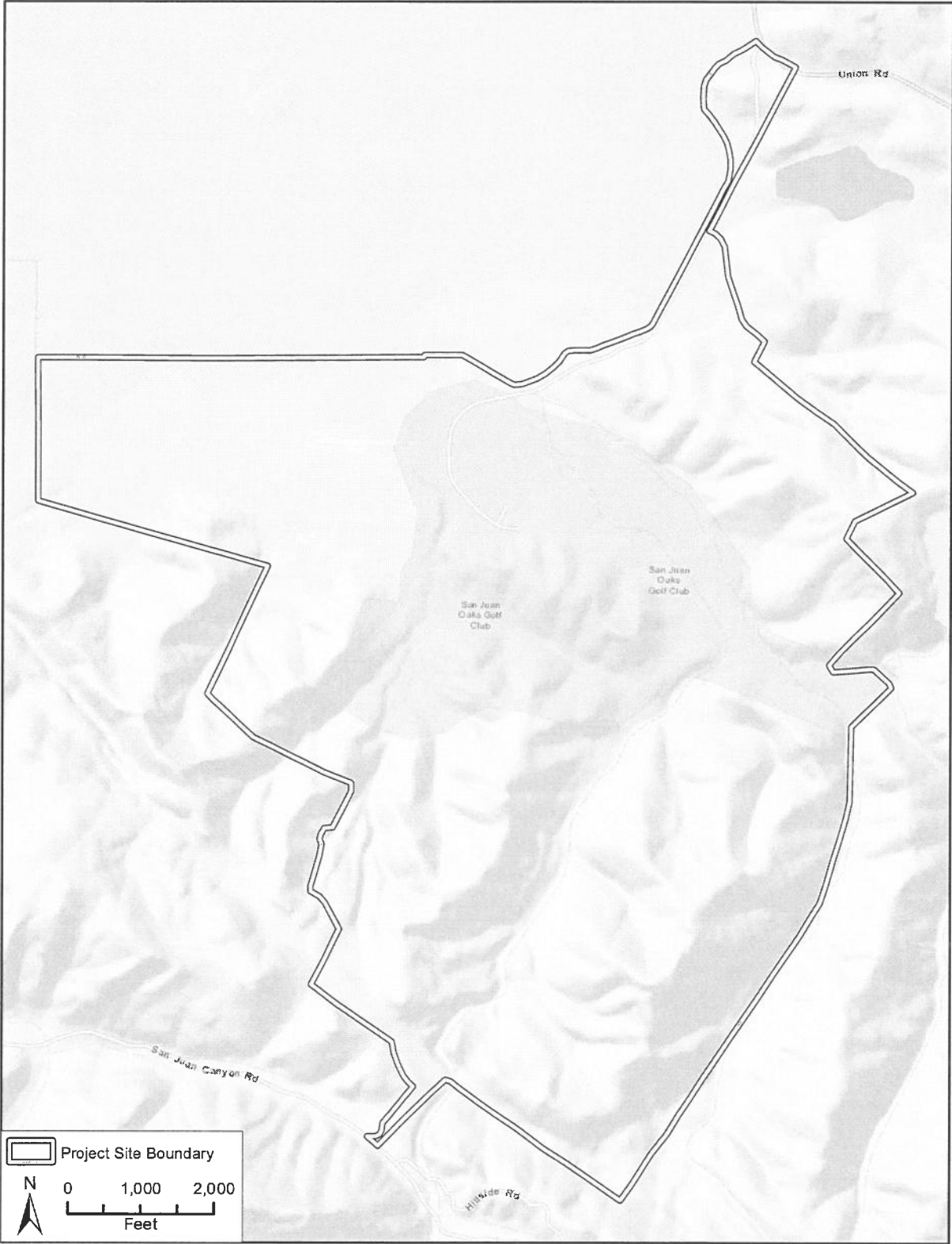
14 **ATTEST:**  
15 Louie Valdez, Clerk of the Board

16 **APPROVED AS TO LEGAL FORM:**  
17 San Benito County Counsel's Office

18 By: Louie Valdez  
19 Date: 11/03/2015.

20 By: Shirley L. Murphy  
21 Shirley L. Murphy, Deputy County Counsel  
22 Date: Oct. 29, 2015

EXHIBIT A



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**EXHIBIT B**

RECORDING REQUESTED BY  
AND WHEN RECORDED MAIL TO:  
San Benito County  
Attn: San Benito County Clerk  
440 Fifth St., Room 206  
County Courthouse  
Hollister, CA 95023

RECORDING FEE EXEMPT  
PURSUANT TO GOVERNMENT CODE  
SECTION 27383

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(Space Above Line For Recorder's Use)

**DEVELOPMENT AGREEMENT BY AND AMONG  
THE COUNTY OF SAN BENITO,  
PULTE HOME CORPORATION AND SAN JUAN OAKS, LLC**

**DEVELOPMENT AGREEMENT BY AND AMONG THE COUNTY OF SAN BENITO, PULTE HOME CORPORATION AND SAN JUAN OAKS, LLC**

THIS DEVELOPMENT AGREEMENT ("**Agreement**") is made and entered into on \_\_\_\_\_, 2015 by and among the County of San Benito, a political subdivision of the State of California ("**County**"), Pulte Home Corporation, a Michigan corporation ("**Pulte**") and San Juan Oaks, LLC, a California limited liability company ("**SJO**"). Pulte and SJO are sometimes herein referred to individually as an "**Owner**" and collectively as "**Owners**". County and Owners are sometimes herein referred to individually as a "**party**" and collectively as "**parties**."

**RECITALS**

This Agreement is predicated on the following facts, which are incorporated into and made a part of this Agreement.

**A. Capitalized Terms.**

This Agreement uses certain terms with initial capital letters that are defined in Section 1 below. Any terms not defined in Section 1 below shall have the meaning assigned to them in this Agreement unless otherwise expressly indicated. County and Owners intend to refer to those definitions when the capitalized terms are used in this Agreement.

**B. Nature and Purpose of Development Agreements.**

The Legislature enacted Government Code section 65864 *et seq.* ("**Development Agreement Statute**") in response to the lack of certainty in the approval of development projects, which can result in a waste of resources, escalate the cost of housing, and discourage investment in and commitment to planning that would maximize the efficient utilization of resources. The Development Agreement Statute is designed to strengthen the public planning process, to encourage private participation in comprehensive, long-range planning, and to reduce the economic costs of development. It authorizes a county to enter into a binding agreement with any person having a legal or equitable interest in real property located in the county regarding the development of that property and providing for the development of such property and establishing certain development rights therein. Among other things, the legislative findings in the Development Agreement Statute state that the lack of public facilities, including, without limitation, streets, wastewater, transportation, potable water, schools, and utilities is a serious impediment to the development of new housing, and that applicants and local governments may include provisions in development agreements relating to applicant financing of necessary public facilities and subsequent reimbursement over time.

**C. County's Development Agreement Procedures.**

Pursuant to the Development Agreement Statute, County adopted San Benito County Code Chapter 19.11 (as may be amended from time to time), which sets forth procedures and requirements for the consideration of development agreements ("**County Development Agreement Procedures**"). This chapter enables County and a property owner seeking County approval of a project to enter into a development agreement that vests certain rights and that requires the property owner to provide certain public benefits beyond those that could otherwise be imposed by County as conditions of development. Consistent with the Development Agreement Statute, the purpose of the County Development Agreement Procedures is to

strengthen the public planning process, to encourage private participation in comprehensive, long range planning, and to reduce the economic costs of development through the use of development agreements. Also stated therein is the conclusion that the appropriate use of development agreements will reduce uncertainty in the development review process, will promote long-term stability in the land use planning process, and will result in significant public gain.

#### D. Owners' Respective Interests in the Property.

The land governed by this Agreement consists of a total of approximately one thousand nine hundred ninety four (1,994) acres in unincorporated San Benito County, as more particularly described in attached Exhibit 1 and depicted on attached Exhibit 2 ("**Property**"). Pulte has an equitable interest in approximately five hundred (500) acres of the Property ("**Pulte Property**") and SJO has a legal interest in the remaining approximately one thousand four hundred ninety-four (1,494) acres of the Property ("**SJO Property**"), as depicted on attached Exhibit 2. The Property currently contains multiple legal parcels that are contiguous, which are intended to be part of a single integrated plan of development.

#### E. Existing Uses on the Property; Background on Prior Development Proposal.

In connection with the below-referenced prior development proposal, the Property was designated by the San Benito County Board of Supervisors ("**Board**") in the County's 1992 General Plan as Rural Transitional (RT)/Planned Unit Development (PUD) Overlay designations as well as Commercial Thoroughfare (C-1), Agricultural Productive (AP), and Agricultural Rangeland (AR) designations; these designations allow for agricultural uses, recreational uses, commercial uses, and residential uses. Existing uses on the Property consist of an 18-hole golf course and a clubhouse with related dining facilities and a pro shop ("**Existing Golf Club**"), along with rangeland and cultivated dry farming. In October 2002, the property owner of the Existing Golf Club submitted a development application (including a vesting tentative subdivision map application) for the purpose of constructing one hundred fifty six (156) non-age-restricted, market rate single-family residential units, thirty (30) affordable units, a resort hotel, a village commercial site, a park, open space, an additional 18-hole golf course, and an additional 9-hole golf course. County approved this proposed development application, including, among other approvals, the vesting tentative subdivision map in July 2004, TSM-02-67 ("**2004 VTM**"), pursuant to Board Resolution 2004-85. Collectively, the above-referenced approvals shall be referred to herein as "**2004 Development**".

#### F. Proposed Development of the Property.

Owners now seek to amend the 2004 VTM and to obtain the additional required approvals, entitlements and permits so that they may develop the Property with the Project as further set forth herein. Specifically, Owners, with County's input, have prepared the draft San Juan Oaks Specific Plan, which relates to the proposed development of the Property as described more fully therein, including, without limitation, the following: an age-restricted active adult community of up to one thousand and seventeen (1,017) single family detached residential units (collectively, "**Active Adult Units**"); an amenity center to serve Project residents and users (approximately 17,500 to 25,000 square feet) ("**Amenity Center**"); sixty seven (67) non-age-restricted, single family detached residential units (collectively, "**Conventional Units**"); a resort hotel with up to two hundred (200) rooms; an approximately sixty-five thousand (65,000) square foot neighborhood commercial and office center; an approximately four (4) acre facility (with up

to a total of one hundred (100) beds) providing a mix of assisted living, skilled nursing and memory care services; approximately forty-one (41) acres for the On-Site Agricultural Preserve; approximately seven (7) acres of private parkland to serve Project residents and users (“**Private Parkland**”); two (2) community parks (totaling approximately seventeen (17) acres) available to the public (collectively, “**Community Parks**”), which will consist of approximately thirteen (13) acres of passive recreational uses within the existing olive orchards on the Property (“**Olive Hill Park Area**”) and approximately four (4) acres located further south on San Juan Oaks Drive for community gardens, dog parks and related facilities (“**Community Garden and Dog Park**”); approximately one hundred fourteen (114) acres of common open space area (including landscaped areas and informal trails); approximately one thousand two hundred and forty three (1,243) acres to be set aside for the Permanent Wildlife Habitat Preservation Area; trails and bicycle networks throughout the Property; and other on- and off-site infrastructure and improvements necessary to serve the Project. In connection with the Project, Owners are also proposing to preserve approximately one hundred fifty three (153) acres for the Off-Site Agricultural Preserve; the Existing Golf Club will remain largely unchanged except for some minor renovations. For purposes of this Agreement, the development described in this Recital F and as further detailed in the Specific Plan and the other Project Approvals shall be known as the “**Project**.”

#### G. Initial Project Approvals.

County has taken or intends to take various planning, land use entitlement and environmental review actions relating to the Project (collectively, “**Initial Approvals**”) as follows:

1. Subsequent Environmental Impact Report (Resolution No. \_\_\_\_\_). On \_\_\_\_\_, 2015, pursuant to the California Environmental Quality Act (Pub. Res. Code § 21000 *et seq.*), the CEQA Guidelines (14 Cal. Regs. § 15000 *et seq.*), and County’s local Implementing Procedures for CEQA (collectively, “**CEQA**”), and following review and recommendation by the Planning Commission and after a duly noticed public hearing, the Board took the following actions: (a) certified a Subsequent Environmental Impact Report (State Clearinghouse No. 2013101006) for the Project (“**Project SEIR**”); (b) adopted written findings relating to significant environmental impacts; (c) adopted a Statement of Overriding Considerations; and (d) adopted a mitigation monitoring and reporting plan (“**MMRP**”).

2. General Plan Amendment (Resolution No. \_\_\_\_\_). On \_\_\_\_\_, 2015, following review and recommendation by the Planning Commission and after a duly noticed public hearing, the Board took the following actions: (a) approved General Plan Amendment No. \_\_\_\_\_ as an amendment to the County’s General Plan (“**General Plan Amendment**”) in connection with the Project; and (b) made determinations regarding the Project’s consistency with the County’s General Plan (as amended).

3. Specific Plan Adoption (Resolution No. \_\_\_\_\_). On \_\_\_\_\_, 2015, following review and recommendation by the Planning Commission and after a duly noticed public hearing, the Board adopted the Specific Plan (“**Specific Plan Adoption**”).

4. County Code, Zoning Text and Zoning Map Amendments (Ordinance No. \_\_\_\_\_). On \_\_\_\_\_, 2015, following review and recommendation by the Planning Commission and after a duly noticed public hearing, the Board took the following actions: (a) amended the text in the County’s Zoning Code to reflect the new zoning designation of “San Juan Oaks – Specific Plan (SJO–SP)” to be applied to the Property; (b) amended the County’s Zoning Map to show the Property as rezoned to “San Juan Oaks – Specific Plan (SJO–SP);” and (c) made other

conforming amendments to ensure consistency between the County Code and the Project (collectively, "**Code Amendments**").

5. Development Agreement (Ordinance \_\_\_\_\_). On \_\_\_\_\_, 2015, following review and recommendation by the Planning Commission and after a duly noticed public hearing, the Board made the following findings with respect to the Agreement:

(a) It has been processed in accordance with the Development Agreement Statute and the County Development Agreement Procedures.

(b) It is consistent with the San Benito County General Plan (as amended), the Specific Plan, any area plans and other applicable Rules, Regulations and Official Policies.

(c) It is compatible with the uses authorized in, and the regulations prescribed for, the applicable zoning of the Property.

(d) It will not adversely affect the orderly development of the surrounding community.

(e) It is fair, just and reasonable.

(f) It is consistent with and best serves the public health, safety and general welfare of the County's citizens and good land use practice because, among other things, it provides for public benefits beyond those benefits that would be forthcoming through conditions of approval as set forth more fully herein.

(g) It should be encouraged in order to meet important economic, social, environmental and planning goals of the County.

On this basis, the Board approved this Agreement. On \_\_\_\_\_, 2015, the Board adopted Ordinance No. \_\_\_\_\_, enacting this Agreement ("**DA Ordinance**"). This Agreement shall become effective on \_\_\_\_\_, 2015 (the date thirty (30) days after the adoption of Ordinance No. \_\_\_\_\_) ("**Effective Date**").

#### **H. Intent of Parties.**

County and Owners have, in good faith, negotiated the terms and conditions of this Agreement, and have determined that use of a development agreement is appropriate for development of the Project in accordance with the other Project Approvals. Among other things, the parties desire to: delineate how Owners' obligations as set forth herein including, without limitation, those relating to the provision and/or funding of Project infrastructure, improvements, services and facilities will be met; eliminate uncertainty in planning and provide for the orderly development of the Property with the Project and to obtain assurance that Owners may proceed with development of the Project in accordance with the Project Approvals; ensure the maximum efficient utilization of resources within the County and the surrounding community; provide for public benefits beyond those that otherwise could be imposed as conditions of approval; and to otherwise achieve the goals and purposes of the Development Agreement Statute and the County's Development Agreement Procedures as these relate to the Property.

NOW, THEREFORE, with reference to the foregoing recitals and in consideration of the mutual promises, obligations and covenants contained herein, Owners and County agree as follows:

## AGREEMENT

### **Section 1     Definition of Terms.**

The following defined terms are used in this Agreement:

- 1.1     **“2004 VTM”** has the meaning set forth in Recital E.
- 1.2     **“2004 Development”** has the meaning set forth in Recital E.
- 1.3     **“Active Adult Units”** has the meaning set forth in Recital F.
- 1.4     **“Agreement”** means this Development Agreement between County and Owners.
- 1.5     **“Amended VTM”** has the meaning set forth in Recital G(6).
- 1.6     **“Amenity Center”** has the meaning set forth in Recital F.
- 1.7     **“Assignment”** has the meaning set forth in Section 10.1.
- 1.8     **“Assignment and Assumption Agreement”** has the meaning set forth in Section 10.2.
- 1.9     **“Basic Community Park Improvements”** has the meaning set forth in Section 2.4(b).
- 1.10    **“Board”** has the meaning set forth in Recital E.
- 1.11    **“Building Permit”** refers to a document authorizing the holder to construct a building or other structure, as provided for in the San Benito County Code.
- 1.12    **“CDFW”** has the meaning set forth in Section 2.9(a).
- 1.13    **“CEQA”** has the meaning set forth in Recital G(1).
- 1.14    **“Certificate of Occupancy”** means a final certificate of occupancy issued by the County’s Building Official or, if the County’s Building Code does not provide for the issuance of a certificate of occupancy for a particular building or other structure, the functional equivalent thereto.
- 1.15    **“Code Amendments”** has the meaning set forth in Recital G(4).
- 1.16    **“COG”** shall mean the Council of San Benito County Governments.
- 1.17    **“Community Benefit Fee”** has the meaning set forth in Section 2.6(a)(i).

- 1.18 **“Community Financing District”** or **“CFD”** shall mean a financing district formed under the Mello-Roos Community Facilities Act of 1982, pursuant to Government Code section 53311 *et seq.*
- 1.19 **“Community Garden and Dog Park”** has the meaning set forth in Recital F.
- 1.20 **“Community Parks”** has the meaning set forth in Recital F.
- 1.21 **“Consent to Assignment”** has the meaning set forth in Section 10.1.
- 1.22 **“Conventional Units”** has the meaning set forth in Recital F.
- 1.23 **“County”** has the meaning set forth in the preamble.
- 1.24 **“County Development Agreement Procedures”** has the meaning set forth in Recital C.
- 1.25 **“DA Ordinance”** has the meaning set forth in Recital G(5).
- 1.26 **“Days”** shall mean calendar days. If the last day to perform an act under this Agreement is a Saturday, Sunday or legal holiday in the State of California, said act may be performed on the next succeeding calendar day that is not a Saturday, Sunday or legal holiday in the State of California and in which the County offices are open to the public for business.
- 1.27 **“Defense Counsel”** has the meaning set forth in Section 12.17.
- 1.28 **“Development Agreement Statute”** has the meaning set forth in Recital B.
- 1.29 **“Development Impact Fee”** or **“Development Impact Fees”** means any requirement of County or other governmental or quasi-governmental agency in connection with a Project Approval for the dedication of land, the construction of public improvements, or the payment of fees in order to lessen, offset, mitigate or compensate for the impacts of development of the Project on the environment; facilities, services, improvements and/or infrastructure; or other public interests.
- 1.30 **“Dispute”** has the meaning set forth in Section 9.1.
- 1.31 **“Effective Date”** has the meaning set forth in Recital G(5).
- 1.32 **“Endowment”** has the meaning set forth in Section 2.9(a).
- 1.33 **“Enforced Delay”** has the meaning set forth in Section 7.
- 1.34 **“Existing Golf Club”** has the meaning set forth in Recital E.
- 1.35 **“Existing Rules”** means the Rules, Regulations and Official Policies in effect on the Effective Date; provided, however, that the parties acknowledge and agree that pursuant to Section 3.2(a)(i) below, for purposes of determining the date upon which Owners vest for purposes of Development Impact Fees only, the Fee Vesting Date rather than the Existing Rules shall govern.

- 1.36 **“Fee Vesting Date”** shall mean March 6, 2014, which is the date upon which County deemed the Amended VTM application complete.
- 1.37 **“Fee Vesting Time Period”** has the meaning set forth in Section 3.2(a)(i).
- 1.38 **“Full Build Out”** shall mean upon the issuance of the last Certificate of Occupancy for all or any component of the Project; e.g., Full Build Out of the residential portion of the Project shall occur when County issues the last Certificate of Occupancy for the Project’s residential component.
- 1.39 **“General Plan Amendment”** has the meaning set forth in Recital G(2).
- 1.40 **“GHAD”** has the meaning set forth in Section 1.82.
- 1.41 **“Initial Approvals”** has the meaning set forth in Recital G.
- 1.42 **“Innocent Owner”** has the meaning set forth in Section 6.1.
- 1.43 **“JAMS”** has the meaning set forth in Section 9.1.
- 1.44 **“Legal Challenge”** has the meaning set forth in Section 12.17.
- 1.45 **“MAI”** has the meaning set forth in Section 3.8.
- 1.46 **“MMRP”** has the meaning set forth in Recital G(1).
- 1.47 **“Mortgage”** shall mean any mortgage, deed of trust, security agreement, assignment or other like security instrument encumbering all or any portion of the Property or any Owner’s rights under this Agreement.
- 1.48 **“Mortgagee”** shall mean the holder of any Mortgage encumbering all or any portion of the Property or any Owner’s rights and obligations under this Agreement, and any successor, transferee, or Subsequent Owner of any such Mortgagee.
- 1.49 **“Mortgagee Successor”** has the meaning set forth in Section 11.1.
- 1.50 **“New Rules”** has the meaning set forth in Section 3.3.
- 1.51 **“Notice of Default”** has the meaning set forth in Section 6.1.
- 1.52 **“Notice of Intent to Terminate”** has the meaning set forth in Section 8.2.
- 1.53 **“Offsite Land”** shall mean lands other than the Property that are necessary to support Project Infrastructure, as is further detailed in Section 3.8.
- 1.54 **“Olive Hill Park Area”** has the meaning set forth in Recital F.
- 1.55 **“Off-Site Agricultural Preserve”** has the meaning set forth in Section 2.9(b).
- 1.56 **“On-Site Agricultural Preserve”** has the meaning set forth in Section 2.9(b).



- 1.57 **“Owner” or “Owners”** has the meaning set forth in the Preamble, and also includes their respective successors and assignees.
- 1.58 **“Periodic Review”** has the meaning set forth in Section 5.
- 1.59 **“Permanent Wildlife Habitat Area”** has the meaning set forth in Section 2.9(a).
- 1.60 **“Planning Commission”** shall mean the San Benito County Planning Commission.
- 1.61 **“Planning Director”** shall mean the head of the Planning and Building Departments and the Chief Planning Officer of San Benito County.
- 1.62 **“Private Parkland”** has the meaning set forth in Recital F.
- 1.63 **“Project”** has the meaning set forth in Recital F.
- 1.64 **“Project Approvals”** shall mean the Initial Approvals and Subsequent Approvals, collectively.
- 1.65 **“Project SEIR”** has the meaning set forth in Recital G(1).
- 1.66 **“Project Infrastructure”** has the meaning set forth in Section 2.3(a).
- 1.67 **“Project Land Use Plan”** shall mean the anticipated location of various Project components, as set forth in more detail in the Specific Plan and other Project Approvals (as may be amended from time to time).
- 1.68 **“Project Revenues”** shall mean, collectively, any and all revenues generated in connection with the Project, whether by property taxes, sales taxes, special taxes, special assessments or otherwise.
- 1.69 **“Property”** has the meaning set forth in Recital D.
- 1.70 **“Public Safety Facility Site”** has the meaning set forth in Section 2.7.
- 1.71 **“Pulte”** has the meaning set forth in the Preamble.
- 1.72 **“Pulte Property”** has the meaning set forth in Recital D.
- 1.73 **“Recorder”** shall mean the San Benito County Recorder.
- 1.74 **“Regulatory Processing Fees”** shall mean any and all fees, costs, and/or charges adopted by County for the purpose of defraying County’s actual costs incurred or to be incurred in the processing and administration of any form of regulatory permit, license, land use entitlement, financing district or mechanism, or other approval, or imposed by County to defray the costs of periodically updating its plans, policies, and procedures, including, without limitation, the fees and charges referred to in Government Code section 66014.
- 1.75 **“Revenue Neutral”** has the meaning set forth in Section 3.12(a).

- 1.76 **“RWQCB”** has the meaning set forth in Section 2.9(a).
- 1.77 **“Rules, Regulations and Official Policies”** shall mean the County rules, regulations, ordinances, laws, general or specific plans, zoning and official policies governing development, including, without limitation, density and intensity of use; permitted uses; the maximum height and size of proposed buildings; the provisions for the reservation or dedication of land for public purposes or payment of fees in lieu thereof; the construction, installation and extension of public improvements; growth management; environmental review; and other criteria relating to development or use of real property and applicable to the Property.
- 1.78 **“SJO”** has the meaning set forth in the Preamble.
- 1.79 **“SJO Property”** has the meaning set forth in Recital D.
- 1.80 **“Specific Plan”** means the San Juan Oaks Specific Plan adopted by the Board on \_\_\_\_\_, 2015 by Resolution No. \_\_\_\_\_.
- 1.81 **“Specific Plan Adoption”** has the meaning set forth in Recital G(3).
- 1.82 **“Subsequent Approvals”** shall mean, collectively, any and all land use, environmental, building and development approvals, entitlements and permits required subsequent to County’s approval of the Initial Approvals in connection with development of the Project on the Property, including, without limitation, formation of a Geologic Hazard Abatement District (**“GHAD”**) and/or a CFD or similar financing district/mechanism; tentative and final subdivision maps, parcel maps and lot line adjustments; conditional use permits; design review approvals; Building Permits; grading permits; Certificates of Occupancy; and any amendments thereto.
- 1.83 **“Subsequent Owner” or “Assignee”** shall mean an individual or entity that has acquired all or a portion of the Property from an Owner in accordance with the assignment and assumption obligations set forth in Sections 10.1 and Section 10.2 below other than: (1) a Mortgagee; or (2) the ultimate user of any residential lot that has been released from liability under this Agreement pursuant to Section 8.3.
- 1.84 **“Substantial Completion”** shall mean when the improvement at issue has been constructed such that it may be used for its intended purpose.
- 1.85 **“Term”** has the meaning set forth in Section 4.1.
- 1.86 **“Traffic Impact Mitigation Fee Program” or “TIMF Program”** shall mean the City of Hollister/San Benito County Regional Traffic Impact Fee Program.
- 1.87 **“Traffic Impact Mitigation Fees” or “TIMF Fees”** shall mean the fees required under the TIMF Program.
- 1.88 **“USFWS”** has the meaning set forth in Section 2.9(a).

## Section 2 Owners' Obligations.

**2.1 Development of the Project.** Subject to compliance with the provisions of this Agreement, during the Term, Owners shall have the vested right to develop all or a portion of the Project in accordance with the Project Approvals including, without limitation, the Specific Plan and this Agreement. Such development shall occur pursuant to the following: (a) this Agreement; (b) the San Benito County General Plan as it existed on the Effective Date as modified by the General Plan Amendment; (c) the San Benito County Code as it existed on the Effective Date as modified by the Code Amendments; (d) the other Initial Approvals, including, without limitation, the Specific Plan; (e) the Subsequent Approvals, as and when they are issued, approved, or adopted, including, without limitation, all conditions of approval attached thereto; and (f) all other applicable Existing Rules except in the case of payment of Development Impact Fees in which case the Fee Vesting Date shall govern development of the Project. Notwithstanding anything to the contrary in this Section 2.1, in the event of a conflict between any provision of this Agreement and the Specific Plan or other Project Approvals, the Specific Plan shall prevail over any other Project Approval except for this Agreement which shall prevail over the Specific Plan.

**2.2 Site Plan Adjustments.** Owners retain the right to apportion uses, intensities and densities in each area identified in the Specific Plan between themselves and any Subsequent Owner(s), upon the Assignment (pursuant to Sections 10.1 and 10.2 below) in accordance with the requirements set forth in Section 8.1.9 of the Specific Plan. Further, subject to Section 2.4(b) below, nothing in this Agreement shall preclude an Owner from subsequently applying to increase the total number of residential units that may be constructed on the Property upon proper application to County to amend this Agreement, the Specific Plan, the Amended VTM, and any other necessary Project Approvals to effectuate such a request. Notwithstanding anything to the contrary in this Section 2.2, the parties acknowledge and agree that County is under no obligation under this Agreement or otherwise to approve any such application(s), and that County retains its authority under its local police power and other applicable laws and regulations in making any and all such decisions related to any such application(s).

### **2.3 Financing of Infrastructure, Improvements, Facilities and Services; Formation of GHAD and CFD.**

(a) County Reliance on Owners' Provision of, or Contribution Towards, Project Infrastructure. The parties acknowledge and agree that County's approval of the Project is, in part, in reliance upon and in consideration of Owners' provision of, or pro rata or fair share contribution(s) towards the infrastructure, facilities, improvements, services and amenities (including, without limitation, construction, operation (including personnel) and maintenance thereof) necessary to serve the Project, as described more fully in the Specific Plan and other Project Approvals (collectively, "**Project Infrastructure**") in accordance with Owners' obligations set forth herein and in the Specific Plan.

(b) Formation of GHAD. It is the intent of the parties to form a GHAD to effectively respond to, address, and abate any identified geologic hazards within the Property and, among other responsibilities, to provide for the long-term monitoring and maintenance of identified areas covered by the approved GHAD's Plan of Control and consistent with applicable law (which may include, without limitation, open space, slopes, drainages, storm water facilities and water treatment improvements), and to perform such monitoring and maintenance in a timely, cost-effective and efficient manner consistent with the approved GHAD Plan of Control.

Upon formation, the GHAD's source of funding to perform such responsibilities shall be through landowner assessments imposed on the Project in accordance with applicable law. The parties agree to work together in good faith and in a timely fashion to form the GHAD, subject to Owners' payment of any and all costs incurred by County (including, without limitation, staff and attorney time) in connection therewith.

(c) Formation and Purpose of CFDs or Other Financing Districts. It is the intent of the parties to form a CFD or other financing district(s)/mechanisms to provide funding to County to be used, in County's sole discretion, to fund various public safety infrastructure, facilities, improvements and services as well as maintenance and operation of the Community Parks. The parties agree to work together in good faith and in a timely fashion to form the CFD as further specified herein. Upon formation, the CFD's source of funding to perform such responsibilities shall be through special taxes on landowners within the Property in accordance with applicable law and as follows:

(i) Upon Full Build Out of the residential component of the Project or seven and one half (7 ½) years from the Effective Date, whichever is earlier, the total annual amount to be generated through the CFD for public safety purposes shall be Two Hundred Thousand Dollars (\$200,000), plus an inflationary rate of two percent (2%) per annum. Imposition of said special taxes for public safety purposes shall commence upon the recordation of the grant deed for the first (1<sup>st</sup>) residential unit within the Project and shall be in the amount of Two Hundred Fifty Six Dollars (\$256) for each Conventional Unit; One Hundred Sixty Seven Dollars (\$167) for each Active Adult Unit; Four Cents (\$0.04) per building square foot for neighborhood commercial and office uses (up to sixty-five thousand (65,000) square feet) but not hotel uses; and Twenty Three Cents (\$0.23) per building square foot for the assisted living facility uses (up to forty-six thousand (46,000) square feet).

(ii) Upon Substantial Completion of the Community Parks, the total annual amount to be generated through the CFD for park operation and maintenance purposes shall equate to the actual cost to perform all ongoing operation and maintenance obligations for the Community Parks as determined during the CFD formation process, plus an inflationary rate of two percent (2%) per annum. In addition to the special taxes to be imposed pursuant to this CFD to cover the maintenance and operation of the Community Parks, Pulte shall be obligated to pay to County the amount of Forty Thousand and Seven Dollars (\$40,007) at the time of the recordation of the first (1<sup>st</sup>) final map that covers any portion of the Active Adult Units in order to cover the anticipated shortfall to ensure that all actual costs for the operation and maintenance of the Community Parks are fully covered. Imposition of said special taxes for park maintenance and operations purposes shall commence upon the Substantial Completion of the Olive Hill Park Area and the Community Garden and Dog Park, respectively, and shall be in the amount determined during the CFD formation process that is sufficient to fully cover all costs of operation and maintenance and shall be imposed only on the Active Adult Units.

(d) Funding of Permanent Wildlife Habitat Area. It is the parties' intention that ongoing maintenance of the Permanent Wildlife Habitat Area on which a conservation easement shall be recorded as required by the applicable USFWS, CDFW and RWQCB permits and the Project SEIR and MMRP will be funded either: (i) through the GHAD, if allowed by the relevant resource agencies and if otherwise permitted under applicable law (including, without limitation, Proposition 218), or (ii) the Endowment funded by Owners by such time as is specified in the

above-referenced permits, but in any event no later than the issuance of the first (1st) grading permit or Building Permit for the Project (whichever is earlier).

## 2.4 Construction of Neighborhood Parks and Trail Network.

The parties acknowledge and agree that Owners, collectively, are providing a substantial amount of private park and recreational facilities consisting of the Private Parkland (approximately seven (7) acres) directly serving the new Project residents in the new neighborhoods, recreational facilities (including construction of new multi-purpose facilities, club houses, pools, and active play areas as well as the maintenance and minor enhancements of the Existing Golf Club), and common open space (approximately one hundred fourteen (114) acres) as part of the Project. However, the parties further acknowledge and agree that pursuant to County Code Section 23.15.008, private park and recreational facilities do not qualify for receipt of credit in order to satisfy County's parkland requirements. Accordingly, to satisfy said requirements, Owners shall construct all of the following additional public park and recreational facilities, and offer them for dedication to County (with operations and maintenance of said facilities funded as provided for herein):

(a) Class 2 bicycle and pedestrian routes along both sides of San Juan Drive connecting Union Road to the Project's neighborhood commercial area, as set forth more fully in Section 2.6(b)(iv) below and the Specific Plan. Provided, however, that for purposes of said Class 2 bicycle and pedestrian routes, the parties acknowledge that, as of the Effective Date, the intention is for said land and improvements to remain private, and therefore the following shall occur: (i) the homeowner's association(s) formed in connection with the Project shall be responsible to cover all costs associated with the maintenance and operation of said lands and improvements until such time as County may accept the offer of dedication, if at all; and (ii) Owners shall grant an easement to County, in a form acceptable to County, to allow for public access on, and use of, said lands and improvements until such time as County may accept the offer of dedication, if at all.

(b) The Community Parks within the Property, which shall total approximately seventeen (17) acres in size and which shall be improved in accordance with the Specific Plan and other Project Approvals and shall include, at a minimum, the following amenities (or other such similar facilities as proposed by Owners and approved by County): dog park(s); a community garden area for County residents to set up garden plots and "urban agriculture" programs; parking areas for visitors; park restroom facilities; trails within the olive grove area; a pedestrian crossing connecting the Olive Hill Park Area and the Community Garden and Dog Park; and sitting and picnicking areas with firepits; and trails and trail access (collectively, "**Basic Community Park Improvements**"). Construction of, and the related offer of dedication for, the Community Parks including, without limitation, the improvements thereon shall be in lieu of paying otherwise applicable County park impact fees (under County Code Section 23.15.008). The Project is providing an approximately four (4) acre Community Garden and Dog Park and related open space facility. In addition, the Project is providing a hiking trail system through the Olive Grove Park now at the Project's entrance of approximately thirteen (13) acres. Said facilities would be located on the publicly accessible San Juan Oaks Drive, and would include parking facilities to allow free unrestricted access and use of said facilities by residents throughout the County. The Community Garden and Dog Park also would include a Project-constructed and Project-maintained restroom facility to improve the experience of park users, which exceeds the typical County Park requirements. The Dog Park component is designed to provide a variety of recreational activities to help ensure that recreational opportunities are available to all members of the community. Pursuant to this Section 2.4(b),

the Project shall also fund the ongoing operation and maintenance costs associated with the Community Park, including, without limitation, long-term capital replacement, which is not required by the County Parkland Dedication to Park and Recreation Impact Codes. Owners shall construct the Community Parks in the general location specified on the Project's Land Use Plan (see Specific Plan), and shall be constructed in accordance with the Specific Plan and other Project Approvals as well as all other requirements under the County Code to receive parkland credit under County Code Section 23.15.008. The Olive Hill Park Area shall be Substantially Complete no later than issuance of the Certificate of Occupancy for the Two Hundred Fiftieth (250<sup>th</sup>) Active Adult Unit, and the Community Garden and Dog Park shall be Substantially Complete no later than issuance of the Certificate of Occupancy for the Five Hundredth (500<sup>th</sup>) Active Adult Unit; provided, however, that Owners shall construct both of said parks in any event no later than seven and one half (7 ½) years from the Effective Date regardless of the status of the Project's buildout. Upon Substantial Completion of each of the above referenced parks, Owners shall offer to dedicate said park(s) (including the land and all improvements located thereon) to County; provided, however, that such dedication shall not affect the agricultural easement and right to continue agricultural uses of the existing Olive Grove. Provided, however, that even after such time as County accepts said offer, County shall not be responsible at any time to fund or perform any portion of the operation and maintenance of the Community Parks; rather, Owners shall ensure an ongoing source of CFD funding for this purpose pursuant to Section 2.3 above. To effectuate this arrangement, County and Owners shall enter into a mutually acceptable agreement prior to County's acceptance of said offer(s) of dedication whereby County agrees to allow the homeowner's association(s) formed in connection with the Project to perform the maintenance and operation responsibilities in connection with the Community Parks subject to adherence to, among other terms and conditions: (1) all applicable County and other standards and requirements; and (2) acceptable indemnification and insurance provisions for the County's benefit. Until such time as County accepts said offer of dedication, Owners shall be responsible for operating and maintaining the Community Parks (including the land and all improvements located thereon), including, without limitation, any and all costs associated therewith. Further, County and Owners acknowledge and agree that the public park acreage and construction of the public park amenities provided for under this Section 2.4(b) exceeds current County standards and thus reflects an additional public benefit that could not otherwise be achieved without this Agreement. To ensure the Project continues to so exceed County parkland standards, in the event any Owner subsequently seeks and obtains all necessary approvals to construct additional residential units in the Project beyond the maximum number currently permitted in the Specific Plan as of the Effective Date, the applicable Owner(s) agree to construct an additional amount of qualifying public parks and related improvements pursuant to applicable County Code requirements, rather than relying on the Project's park acreage that was provided pursuant to this Agreement, to ensure that the Project continues to exceed the County park standards as contemplated herein.

## **2.5 Street Improvements and Other Project Infrastructure.**

(a) General Construction Obligations. Owners shall construct, or cause to be constructed or contribute their respective pro rata or fair share towards the construction of, the Project Infrastructure in accordance with the provisions of this Agreement, the Specific Plan, and the other Project Approvals. Development of the Property, including, without limitation, the Project Infrastructure, shall be subject to final design review, plan check and inspection by County in accordance with the Specific Plan, the other Project Approvals, and the County Code, as applicable. The Project Approvals, and all required improvement plans prepared in accordance with and in connection thereto and as approved by County, shall govern the design

and scope of all Project Infrastructure to be constructed on or benefiting the Property and the Project.

(b) On-Site Improvements. Owners shall construct all street improvements and all other Project Infrastructure to be located within the Property in accordance with their obligations under this Agreement and as required by the Specific Plan, the other Project Approvals (including, without limitation, all conditions of approval attached thereto), and the Project SEIR (including, without limitation, the MMRP). Said improvements shall include, without limitation, construction of San Juan Oaks Drive (including, without limitation, construction of thirty two (32) feet of pavement width that shall include Class 2 bicycle and pedestrian routes); an emergency vehicle access (EVA) to connect from Del Webb Boulevard to the existing State Route 156; utility improvements; and integrated storm drainage facilities into the Project's landscape design. With respect to the above-referenced improvements on San Juan Oaks Drive, County agrees that Owners' construction of said improvements shall occur prior to issuance of the Certificate of Occupancy for the Two Hundred Seventieth (270<sup>th</sup>) Active Adult Unit; construction of said improvements shall be governed by the applicable standards set forth in the Specific Plan rather than those set forth in the County Code with respect to curbs, gutters, attached sidewalks, and street width. County further agrees that: (i) with respect to: the southbound Class 2 route on San Juan Oaks Drive that would cross the existing drainage channel, Owners may construct it by building a separate pre-fabricated bridge instead of widening the existing narrow bridges, and it shall connect to the planned Class 1 facility in order to provide access to the residential portions of the Project as well as the Existing Golf Club; and (ii) with respect to the northbound Class 2 route, Owners may construct it by building a separate pre-fabricated bridge, which is anticipated to cross the existing drainage channel through the Project's neighborhood commercial area (initially constructed as a Class 3 route) and then continue onto San Juan Oaks Drive as a Class 2 facility from the northerly commercial road.

(c) Off-site Improvements. Owners shall provide, or contribute towards, all of those street improvements and other Project Infrastructure that are to be located off-site but that are necessary or desirable to serve the Project, in accordance with their obligations under this Agreement and as required by the Specific Plan, the other Project Approvals (including, without limitation, all conditions of approval attached thereto), and the Project SEIR (including, without limitation, the MMRP). Said obligations shall include, without limitation, the following:

(i) State Route 156 and Bixby Road. To mitigate for the Project's cumulative impacts and as set forth more fully in the Project SEIR and the MMRP, Owners shall pay their respective pro rata or fair share contributions towards the funding of the proposed traffic signal at the intersection of State Route 156 and Bixby Road, which amounts shall be based on the Project's overall percentage contribution of trips towards the cumulative scenario. For purposes of this Section 2.5(c)(i), the parties agree that Owners' collective pro rata or fair share contribution shall be paid at the time of the recordation of the final map that covers the two hundred seventy fifth (275<sup>th</sup>) Active Adult Unit, and shall equate to seven percent (7%) of the total estimated costs (including, without limitation, both hard and soft costs (i.e., design, administration and installation costs) to construct the above-referenced proposed signal based on an engineer's report approved by County and paid for by Owners.

(ii) San Juan Oaks Drive and Union Road Intersection. As required in the Project SEIR and the MMRP, Owners shall be responsible for funding and constructing the traffic signal at the intersection of San Juan Oaks Drive and Union Road, and the widening of the roadway that is necessary to accommodate said signalization for safe operations of the Project entrance intersection until such time that Union Road is widened through the TIMF

program to a full four (4) lane facility. Improvements at said intersection beyond those required (if any) to construct the signal and mitigate any operational safety issues, which may overlap with improvements identified in the TIMF shall be subject to credit against TIMF fees otherwise due consistent with attached Exhibit 3; and to the extent that a portion of the above-referenced improvements are subject to TIMF fee credit and said construction exceeds said Owner's mitigation requirements, then said Owner shall be eligible for reimbursement from the TIMF Program pursuant to Section 2.8(b) below.

(iii) Union Road and State Route 25. Owners shall be responsible for funding and constructing an eastbound right turn lane from Union Road onto southbound Airline Highway (State Route 25). Notwithstanding the fact that said improvement was not included in the TIMF Program as of the Fee Vesting Date, the constructing Owner shall be eligible for credit under the TIMF Program pursuant to Section 2.8(a) in the event that the TIMF Program is updated in the future to expressly include said improvement. Furthermore, in the event and to the extent the constructing Owner can demonstrate that said improvement exceeds the Project's mitigation requirements and it is expressly included in an updated TIMF Program, then the constructing Owner shall be eligible for reimbursement pursuant to Section 2.8(b) below.

(iv) Construction of Wastewater Collection and Conveyance Infrastructure. In the event and to the extent Owners desire to connect the Project to the City of Hollister's wastewater treatment plant, then Owners shall be responsible for funding and constructing the necessary Project Infrastructure to convey Project wastewater to the City of Hollister for processing. To facilitate said construction, County shall: (A) have the right to review and approve plans for pipeline construction to the extent said plans reflect work within the County's existing public right of way; (B) allow the constructing Owner reasonable access within County's existing right of way for said pipeline construction so long as said Owner has obtained the required encroachment permit and adheres to the standards and conditions set forth therein; and (C) adhere to the provisions set forth in Section 3.8 below in the event and to the extent triggered.

## 2.6 Additional Public Benefits of the Project.

(a) Community Benefit Fee. In addition to making the payments required in connection with Development Impact Fees, satisfying all Project SEIR mitigation measures, constructing the Community Parks, Private Parkland and other Project Infrastructure, and paying all other identified fees and contributions as required herein, Owners shall provide the following additional public benefits:

(i) Pay to County the total amount of Five Million Five Hundred and Fifty Nine Dollars (\$5,559,000) ("**Community Benefit Fee**)," which shall be used in County's sole and absolute discretion as it deems appropriate for the benefit of the County, which may include: general community benefits, street improvements, affordable housing, public safety services, library services, and communications.

(A) Owners shall pay the Community Benefit Fee as follows: (1) Pulte shall pay the amount of One Million Dollars (\$1,000,000) within five (5) days of County's approval of the Project's first (1<sup>st</sup>) final map that covers all or any portion of the Active Adult Units; (2) SJO shall pay the total amount of Five Hundred and Five Thousand Nine Hundred and Ten Dollars (\$505,910), which may be divided into two (2) equal installments of Two Hundred Fifty Two Thousand Nine Hundred and Fifty Five Dollars (\$252,955), each due upon recordation of the first (1<sup>st</sup>) and second (2<sup>nd</sup>) final maps that cover all or any portion of the



Conventional Units; provided, however, that if only one (1) final map is recorded for all of the Conventional Units, then the total amount of \$505,910 shall be due upon recordation of said map; and (3) Pulte shall pay the total amount of Four Million Fifty Three Thousand and Ninety Dollars (\$4,053,090), which may be divided in three (3) equal payments of One Million Six Hundred Thousand Eighty Four and Three Hundred Sixty Three Dollars (\$1,684,363), each due upon recordation of the first (1<sup>st</sup>), second (2<sup>nd</sup>) and third (3<sup>rd</sup>) final maps that cover the Adult Active Units; provided, however, that if fewer than three (3) final maps are recorded for all of the Adult Active Units, then the total amount of \$4,053,090 shall be due upon recordation of the final map that covers all such units. Notwithstanding anything to the contrary in this Section 2.6(a)(i)(A), if full payment of the Community Benefit Fee has not occurred within seven and one half (7 ½) years from the Effective Date, then the remaining balance shall be immediately due and payable by Owners at that time and County shall have the right to withheld issuance of any further Building Permits for the Project until full payment has been received.

(b) Other Public Benefits. Owners shall also provide the following additional benefits as set forth herein and in the other Project Approvals, which the parties acknowledge and agree constitute additional public benefits justifying the Board's approval of this Agreement:

(i) Provide for the permanent preservation of the Off-Site Agricultural Preserve by recording an acceptable easement covering said land in favor of the San Benito Land Trust (which was recorded on October 15, 2014);

(ii) Provide for the permanent preservation of the On-Site Agricultural Preserve by SJO recording an acceptable easement covering said land in favor of the San Benito Land Trust in accordance with the provisions set forth herein prior to issuance of the Project's first (1<sup>st</sup>) Building Permit; said easement shall be in substantially the same form as attached Exhibit 4 or as otherwise may be required by the San Benito Land Trust or San Juan Oaks, subject to prior County approval of any such revised easement;

(iii) Provide for the permanent on-site conservation of the Permanent Wildlife Habitat Area by recording an acceptable conservation easement as required by the applicable permits issued by the relevant resource agencies (i.e., USFWS, CDFW, and RWQCB) and in accordance with the provisions set forth herein;

(iv) Construct Class 2 bicycle and pedestrian routes along both sides of San Juan Drive connecting Union Road to the Project's neighborhood commercial area in accordance with the provisions set forth herein; and

(v) Support and facilitate the formation of a CFD and GHAD on the Property in accordance with the provisions set forth herein, which, once formed, shall provide funding for public safety and Community Park operation and maintenance purposes, as well as funding to appropriately address any identified geologic hazards on the Property.

## **2.7 Public Safety Improvements.**

As a condition of approval on the Amended VTM (and consistent with the prior conditions of approval imposed on the 2004 VTM), SJO shall offer to dedicate to County an approximately two (2) acre site (as shown on attached Exhibit 5) to be used by County for a public safety facility ("**Public Safety Facility Site**"). Provided, however, in the event County has not accepted said offer of dedication and commenced construction of said public safety facility within fifteen (15) years of the offer of dedication, then said offer shall terminate and any interest

of County in the Public Safety Facility Site shall automatically revert to SJO. Notwithstanding anything to the contrary in this Section 2.7, the parties agree that each Owner shall pay all applicable Fire Service Fees in connection with the Project pursuant to Section 3.2 below, and no Owner shall receive a credit against such fees as a result of making the offer of dedication required in this Section 2.7.

## **2.8 Reimbursement; Credits.**

No Owner shall be entitled to any fee credits or reimbursement in connection with any Project Infrastructure required under this Agreement or by any other Project Approvals, except under the following limited circumstances:

(a) Fee Credits for TIMF Improvements. If an Owner constructs an improvement that is expressly identified in the TIMF Program as of the Fee Vesting Date, then said constructing Owner shall be entitled to credit against its TIMF Fees it would otherwise owe in connection with Project development in the amount listed in the TIMF Program as the estimated cost for the improvement at issue. Notwithstanding the foregoing, the parties agree that, except pursuant to Section 2.5(c)(iii) above, no TIMF Fee credit shall be due if the improvement at issue is not expressly identified in the TIMF Program as of the Fee Vesting Date, even if said improvement is later identified in an updated TIMF Program.

(b) Reimbursement for TIMF Improvements. Subject to Section 2.5(c)(iii) above, if an Owner constructs an improvement that is expressly identified in the TIMF Program as of the Fee Vesting Date (i.e., Union Road and State Route 25 intersection improvements), and said improvement exceeds the constructing Owner's mitigation requirements, then said Owner shall be entitled to receive reimbursement for an amount that equates to the difference between the estimated cost of the improvement at issue listed in the TIMF Program and said Owner's pro rata or fair share contribution of said improvement (based on the Project's contribution to the identified traffic impacts as described in the Project SEIR). Provided, however, that County shall be obligated to reimburse the constructing Owner under this Section 2.8(b) only if and to the extent sufficient funds are available in the TIMF Program to cover such reimbursement request(s) for the improvements at issue and under no circumstances shall County be required to reimburse said Owner with General Fund monies or TIMF funding slated for development of other non-related traffic improvements.

(c) Reimbursement From Other Property Owners Generally. In the event and to the extent other private property owners outside of the Property directly benefit from an Owner's construction of any Project Infrastructure on-site or off-site which is not covered under Section 2.8(b) above, the constructing Owner(s) shall be entitled to reimbursement from any such other property owner(s) based on an apportionment of the relevant pro rata or fair share contribution of costs of the improvement at issue. To the extent an Owner seeks reimbursement under this Section 2.8(c), County shall use diligent and good faith efforts to facilitate said reimbursement consistent with County's Subdivision Ordinance and all applicable federal, state, and local laws and regulations (including, without limitation, Proposition 218), through the formation of a local benefit district or Area of Benefit. Said reimbursement shall occur as promptly as feasible after assessment(s) or fees (as applicable) are available for purposes of reimbursing the requesting Owner for the improvement at issue. Notwithstanding anything to the contrary in this Section 2.8(c), an Owner who is requesting reimbursement shall pay all of County's costs (including, without limitation, staff and attorney time) associated with the requested reimbursement hereunder and shall indemnify and hold County harmless from and against any and all claims in connection therewith. Further, Owners agree that County's

obligations under this Section 2.8(c) are limited to facilitating reimbursement from other private property owners, and County shall have no obligation to directly or indirectly reimburse Owners. County's obligation to facilitate reimbursement as set forth in this Section 2.8(c) shall survive for a period of ten (10) years after the expiration of the Term, including any extensions thereto, if the required reimbursement does not occur prior to Full Buildout of the Project.

## **2.9 Permanent Habitat Conservation and Agricultural Preservation.**

(a) **Permanent Wildlife Habitat Area.** Owners shall provide for the permanent conservation of approximately one thousand two hundred and forty three (1,243) acres of the Property as shown on attached Exhibit 6 and referenced as Parcels W.1.1, W1.2, W1.3, W1.4, and W1.5 in the Specific Plan and the Project SEIR (collectively, "**Permanent Wildlife Habitat Area**"). Owners shall record a conservation easement over the Permanent Wildlife Habitat Area, which shall be funded either by GHAD assessments (if permitted under applicable law and approved by the relevant resource agencies) or through Owners establishing an endowment acceptable to the relevant resource agencies, which shall provide sufficient funding for management activities in perpetuity ("**Endowment**"). Owners shall be responsible for ensuring that the conservation easement covering the Permanent Wildlife Habitat Area complies with all requirements of applicable resource agency permits issued, including those by United States Fish and Wildlife Service ("**USFWS**"), California Department of Fish and Wildlife ("**CDFW**") and Regional Water Quality Control Board ("**RWQCB**") as well as those set forth in the Project SEIR and the MMRP, and shall include all such necessary provisions to ensure the Permanent Wildlife Habitat Area is managed accordingly. County agrees that Owners' provision of the Permanent Wildlife Habitat Area in accordance with the requirements of this Section 2.9(a), to be protected in perpetuity, along with the provision of the Endowment, shall satisfy the purpose of the County's Habitat Conservation Mitigation Fee (Ordinance No. 541; Chapter 19.19 of the San Benito County Code) and shall be in lieu of payment otherwise due by Owners thereunder. Satisfaction of the obligations set forth in this Section 2.9(a) shall occur prior to the issuance of the first (1<sup>st</sup>) grading permit or Building Permit for the Project, whichever comes earlier.

(b) **Agricultural Preserves.** Pursuant to Section 2.6(b) above, SJO shall record easements covering the following acreage for the purpose of preserving said land in perpetuity for agricultural uses: approximately forty-one (41) acres within the Property (as shown on attached Exhibit 7) ("**On-Site Agricultural Preserve**") and approximately one hundred fifty three (153) acres off-site (as shown on attached Exhibit 8) ("**Off-Site Agricultural Preserve**").

## **Section 3 Owners' Vested Rights.**

### **3.1 Vested Right to Develop the Project.**

Subject to Owners' compliance with the provisions of this Agreement, Owners shall have the vested right to develop the Property with the Project in accordance with this Agreement and other Project Approvals. The parties acknowledge and agree that Subsequent Approvals will be required to fully implement the Project. County shall process and consider any application for a Subsequent Approval in accordance with the Existing Rules; provided, however, the parties acknowledge and agree that the Fee Vesting Date shall govern payment of the Development Impact Fees except as otherwise set forth herein. The permitted uses of the Property; the density and intensity of such uses; the maximum height and size of proposed buildings; the provisions for the reservation or dedication of land for public purposes or payment

of fees in lieu thereof; the construction, installation and extension of Project Infrastructure; and the development standards and design guidelines shall be as set forth in the Project Approvals. Owners retain the right to apportion the uses, intensities, and densities between itself and any subsequent owners, upon the sale, transfer or Assignment of all or any portion of the Property, so long as such apportionment is consistent with the Existing Rules and Section 2.1 above.

### 3.2 Development Impact Fees and Regulatory Processing Fees.

#### (a) Development Impact Fees Generally.

(i) Fee Vesting Time Period. Each Owner seeking to develop all or a portion of the Project shall pay all Development Impact Fees due in connection with the proposed development at issue as identified in attached Exhibit 9 and in accordance with this Section 3.2(a). For a period of seven and one half (7 ½) years from the Effective Date ("**Fee Vesting Time Period**"), the parties agree that (i) each Owner shall be vested such that it shall be permitted to pay said fees, including, without limitation, the TIMF Fees, in the amount that was in place as of the Fee Vesting Date, and (ii) no Owner shall be required to pay any said fees that are newly established after the Fee Vesting Date. Notwithstanding the foregoing, at the end of said Fee Vesting Time Period, if Full Build Out of the Project has not occurred, no Owner shall be vested into any Development Impact Fees (either amount or type) and therefore each Owner shall be required to pay any and all then-applicable Development Impact Fees (in both amount and type) at the time said Owner seeks to develop the remaining portion(s) of the Project. Each Owner shall pay the applicable Development Impact Fees upon issuance of each Building Permit for the proposed development at issue unless otherwise provided for under applicable law.

(ii) Confirmation of Applicable TIMF Fees. County's TIMF Program as of the Fee Vesting Date (March 2014) shall govern the Project during the Fee Vesting Time Period, and the parties agree that the Project is located in Zone 2 identified in the TIMF Program. The parties agree that the TIMF Program, as of the Fee Vesting Date, provides that the following fees would apply to the Project during the Fee Vesting Time Period: (i) for the Conventional Units, it shall equate to Five Thousand One Hundred and Thirty Dollars (\$5,130) per unit; (ii) for the Active Adult Units, it shall be Five Thousand One Hundred Thirty Dollars (\$5,130) per unit; (iii) for the commercial uses, it shall be Three Dollars and Thirty Three Cents (\$3.33) per square foot; and (iv) for office uses, it shall be Eight Dollars and Eight Cents (\$8.08) per square foot. No TIMF shall be required for amenity space (including, without limitation, clubhouses, multi-purpose rooms, swim and tennis centers and other recreational facilities) that are solely for the non-commercial use of residents of the Project and their guests. Provided, however, that a constructing Owner shall be entitled to reimbursement in the event and to the extent said Owner constructed traffic improvements expressly identified in the TIMF Program as of the Fee Vesting Date in accordance with Section 2.8(b) above and subject to Section 2.5(c)(iii).

(iii) Wastewater, Domestic and Reclaimed Water Fees. The parties agree that Owners shall not be required to pay any wastewater, domestic or reclaimed water Development Impact Fees to County since a private utility will be formed to provide such utility services; provided, however that Owners agree that in the event and to the extent the Project will utilize existing wastewater facilities owned and operated by the City of Hollister, the Project shall be subject to any applicable fees imposed by the City related thereto.

(b) Regulatory Processing Fees Generally. Each Owner shall pay all Regulatory Processing Fees in connection with its proposed development in accordance with Section 3.3 below.

### **3.3 Application of Subsequently Enacted Rules, Regulations and Official Policies.**

This Agreement is a legally binding contract that shall supersede any initiative, measure, moratorium, statute, ordinance, or other limitation enacted after the Effective Date except as provided herein and as otherwise provided for in accordance with applicable law. Notwithstanding the foregoing, the parties acknowledge and agree that County may adopt new or modified Rules, Regulations and Official Policies after the Effective Date (collectively, "**New Rules**"); provided, however, such New Rules shall be applicable to the Project or the Property only to the extent that such application will not modify, prevent or impede development of the Project on the Property or conflict with any of the vested rights granted to Owners under this Agreement. Any New Rules shall be deemed to conflict with Owners' vested rights hereunder if they seek to limit or reduce the density or intensity of development of the Project; or to limit the timing of the development of the Project, either with specific reference to the Property or as part of a general enactment that applies to the Property. Notwithstanding anything to the contrary in this Section 3.3, County shall not be precluded from applying any New Rules to the Project or Property under the following circumstances, where the New Rules are: (i) specifically mandated by changes in state or federal laws or regulations adopted after the Effective Date as provided in Government Code section 65869.5; (ii) specifically mandated by a court of competent jurisdiction; (iii) changes to the Uniform Building Code or similar uniform construction codes, or to County's local construction standards for public improvements so long as such code or standard has been adopted by County and is in effect on a County-wide basis; (iv) required as a result of facts, events or circumstances presently unknown or unforeseeable that would otherwise have an immediate and material adverse risk on the health or safety of the surrounding community; or (v) new or increased Regulatory Processing Fees so long as such fees are applied to all similar development projects on a County-wide basis.

### **3.4 Modification or Suspension by State or Federal Law.**

In the event that state or federal laws or regulations enacted after the Effective Date apply to the Project and prevent or preclude compliance with one or more provisions of this Agreement, such provision(s) of this Agreement shall be modified or suspended as may be necessary to comply with such state or federal laws or regulations. Notwithstanding the foregoing, the remainder of this Agreement shall remain in full force and effect to the extent it is not inconsistent with such laws or regulations and to the extent such laws or regulations do not render such remaining provisions impractical to enforce.

### **3.5 CEQA.**

Owners acknowledge that implementation of the Project will require County's consideration and approval of applications for Subsequent Approvals and that County will complete environmental review in connection with those Subsequent Approvals as required by CEQA and other applicable federal, state and local laws and regulations. County's environmental review of the Subsequent Approvals pursuant to CEQA shall utilize the Project SEIR to the fullest extent permitted by law; provided, however, nothing in this Agreement shall be deemed to limit the legal authority of County to conduct any environmental review required under CEQA or other applicable laws and regulation.

### 3.6 Timing of Development.

The parties acknowledge that Owners cannot at this time predict when, or at what rate the Project will be developed. Such decisions depend upon numerous factors that may not be within Owners' control, such as market orientation and demand, interest rates, absorption, completion and other similar factors. It is the intent of the parties to avoid the result of the decision in *Pardee Construction Co. v. City of Camarillo* (1984) 37 Cal.3d 465 by acknowledging and providing that Owners shall have the right but not the obligation to develop the Project, and in such order, at such rate, and at such times as Owners deem appropriate within their exercise of subjective business judgment, subject to any and all requirements. Provided, however, nothing in this section is intended to excuse an Owner from any obligation in this Agreement which is required to be performed on or before a specified calendar date or event without regard to whether or not said Owner proceeds with any portion of the Project. The parties further acknowledge and agree that nothing in this Agreement or in the other Initial Approvals require that the hotel component of the Project be built at a specific time or at all, and that said hotel component will be built, if at all, at Owner(s)' sole and absolute discretion.

### 3.7 Regulation by Other Public Agencies.

It is acknowledged by the parties that other public agencies not within County's control may possess authority to regulate aspects of the construction and operation of the Project, and this Agreement in no way constrains or limits any such authority of other public agencies.

### 3.8 Eminent Domain.

The parties acknowledge and agree that development of the Project Infrastructure is a critical component of the Project and also will result in benefits to the community generally. While not anticipated, the parties acknowledge that fulfilling said obligations may require acquisition of additional land outside the Property. If such acquisition is necessary to develop any aspect of the Project Infrastructure, Owners shall use their best efforts to acquire any and all such land ("**Offsite Land**"), which shall include: paying for and obtaining an appraisal prepared by a qualified Member of the Appraisal Institute ("**MAI**"), in connection with the acquisition of the Offsite Land; and offering to acquire the Offsite Land based on such appraisal. In the event Owners are not successful in acquiring the Offsite Land, County and Owners shall meet and confer to determine: (a) whether the need for the Offsite Land is such that County should consider informally intervening to facilitate said acquisition; (b) whether there may be other feasible means of accomplishing the public objectives at issue such that acquisition of the Offsite Land is no longer needed; and (c) whether it would be appropriate for County to consider using its statutory powers of eminent domain to acquire the Offsite Land. In the event that County, in its discretion, determines to use its statutory powers of eminent domain to pursue acquisition of the Offsite Land, Owners shall be responsible for all costs associated therewith. Notwithstanding the foregoing, neither this Section 3.6 nor any other provision of this Agreement is intended to abrogate County's responsibilities, in the exercise of eminent domain, to satisfy the substantive and procedural requirements of the Eminent Domain Law (California Code of Civil Procedure Part 3, Title 7, Sections 1230.010-1273.050), as amended from time to time. In the event the Offsite Land is not ultimately acquired because Owners were unable to acquire said land privately and because the County determined not to pursue eminent domain of the Offsite Land after a request to do so by Owners has been made, then Owners' obligations in connection with that aspect of the Project Infrastructure that necessitated acquisition of the Offsite Land shall terminate and be of no further force or effect in accordance with Government Code section 66462.5 of the Subdivision

Map Act.

### **3.9 Life of Project Approvals.**

The Life of all Initial Approvals and any and all Subsequent Approvals for the Project to be built on the Property, including, without limitation, tentative subdivision maps or parcel maps, shall be at least equal to the Term of this Agreement and any extensions thereto in accordance with applicable laws, unless this Agreement is earlier terminated pursuant to the provisions hereof, in which event the life of said approvals shall be governed by the applicable provisions of this Agreement with respect to entitlements after termination. Provided, however, the life of all Initial Approvals and Subsequent Approvals may extend beyond the term of this Agreement in the event and to the extent allowed by applicable law.

### **3.10 Owners' Applications for Subsequent Approvals.**

Consistent with their respective vested rights hereunder, Owners shall be obligated to obtain any and all required Subsequent Approvals to develop the Project. Owners shall apply for such Approvals in a timely manner. Owners' obligations under this Section 3.10 apply to those Approvals that are under County's jurisdiction and also to those Project Approvals that may be required by other governmental or quasi-governmental agencies having jurisdiction over the implementation of any aspect of the Project (including, without limitation, the Department of Transportation; agencies having jurisdiction over outside service agreements or district formation, flood control, wastewater service, water service or fire protection; and agencies having jurisdiction over air quality, biological resources, solid wastes and hazardous wastes and materials). At such time as Owners seek such Project Approval(s) from non-County agencies, County agrees to reasonably cooperate and coordinate with Owners in such efforts for the purpose of implementing the Project, upon Owners' request and subject to the requesting Owner(s) paying any and all costs incurred by County in connection therewith (including, without limitation, costs associated with staff and attorney time).

### **3.11 County's Processing of Subsequent Approvals.**

(a) Expedited Processing. County shall cooperate and diligently work to promptly process and consider all applications for Subsequent Approvals, provided that: each such application is in a proper form with all relevant information provided; it includes payment of any and all applicable fees; and the applicable Owner is in compliance with its respective obligations under this Agreement. In the event that County and the applicable Owner mutually determine that additional personnel or outside consultants need to be retained to assist County to expeditiously process any Subsequent Approval, the cost of any such personnel or consultants shall be paid by said Owner but shall be under the direction of County. County shall retain its discretion in its consideration of any and all Subsequent Approvals but shall exercise that discretion in a manner consistent with Owners' vested rights under this Agreement, including any action(s) to impose additional conditions, fees, and/or exactions.

(b) Financing and Conveyance Maps. Owner(s) may seek County approval of a "Master Tract Map" or "Large Lot Map" for the sole purposes of conveying portions of the Property to others and/or for creating legal lots which may be used as security for loans to develop the Property or portions thereof, as otherwise permitted under the Subdivision Map Act. Any such map shall not authorize any development of any Project component (including, without limitation, any Project Infrastructure) and shall not be subject to any conditions other than those relating to monumentation and those that do not require the payment of Development Impact

Fees or the installation or construction of improvements; provided, however, that the Owner at issue shall pay all applicable Regulatory Processing Fees for said map application.

(c) Multiple Final Maps. Owner(s) may seek to file multiple final maps on all or a portion of the Property in accordance with applicable law, including, without limitation, Government Code section 66456.1 and County's Subdivision Ordinance.

(d) Building Permits. County agrees to implement a Master Plan check process to expedite plan check for issuance of Building Permits for the Project as follows: (a) Owners will present model house plans with all variations for one detailed plan check, County shall complete such plan check in accordance with applicable laws and regulations; (b) thereafter, so long as the Building Permit application(s) are otherwise complete, County shall issue, no later than twenty (20) business days after an application submittal is deemed complete, Building Permits for up to twenty five (25) plans at a time submitted for those identical model house styles. Notwithstanding the foregoing, said expedited review shall not apply to County's initial review and processing of the plans at issue.

### **3.12 Revenue Neutrality of Project; Cooperation in Forming Financing Districts.**

(a) Revenue Neutrality Generally. The parties acknowledge and agree that so long as Owners satisfy their obligations hereunder as they relate to specified financial payments, contributions and fees and so long as Owners pursue, fund, support and facilitate the formation of the GHAD and CFD as provided for herein, then the Project shall be considered "**Revenue Neutral**".

(b) Formation of CFD. In addition to, among others, Owners' payment to County of the monetary benefits set forth in Section 2.3 above, and Owners' agreement to pursue, fund, support and facilitate formation of the GHAD, Owners shall request that County form a CFD or some other mutually acceptable financing district or mechanism, to the extent permitted under applicable law, to impose an annual special tax on the Project in accordance with Section 2.3(c) above. In connection with said request, Owners shall cooperate in the establishment of the CFD and the imposition of the related levy over the Property, including, without limitation, not exercising any right of protest; preparing and submitting, at Owners' sole cost and expense, any and all studies and other documentation necessary to form the CFD (or, at County's request, funding County's consultant(s) for preparing such studies and other documentation); and paying all of County's actual costs and expenses associated with the formation process. After Owners have initiated said formation process, County shall use diligent and good faith efforts to complete said formation process within one hundred and eighty (180) days after County issues the required Notice of Intention to Form the San Juan Oaks CFD. Notwithstanding the foregoing, in the event that County elects not to form a CFD, Owners' obligations under Section 2.3(c) above to fund the annual \$200,000 (plus inflationary increases) for additional public safety services and all actual costs to operate and maintain the Community Parks (plus inflationary increases) shall terminate so long as Owners have otherwise satisfied their obligations in this Section 3.12(b).

## **Section 4. Duration of Agreement.**

4.1 Term. The term of this Agreement shall commence on the Effective Date, and shall continue for a period of fifteen (15) years unless extended in accordance with other provisions of this Agreement, or sooner terminated as provided herein ("**Term**"). Following the expiration of the Term, this Agreement shall be deemed terminated and of no further force and



effect except for the rights and obligations described in Sections 2.8(c), 8.1, 12.13. and 12.17 of this Agreement, which shall survive termination as provided for herein. Provided, however, that termination of this Agreement that occurs as a result of the Term expiring shall not modify any right or obligation arising from the Specific Plan or other Project Approvals or any expiration date related thereto.

4.2 Tolling In Event of Litigation. in the event litigation is filed challenging this Agreement and/or other Project Approvals and such litigation would delay the Project or prevent the DA Ordinance from becoming effective on the Effective Date (i.e., court issues injunctive relief in connection with the DA Ordinance and other Initial Approvals such that said approvals are stayed and not presumed to be valid), the Term shall be automatically tolled for the duration of the litigation which is defined to mean the litigation is fully and finally resolved in such a manner that the Agreement and other related Initial Approvals become effective. Provided, however, that in the event such litigation is filed but does not result in the delay or prevention of the DA Ordinance from becoming effective on the Effective Date (i.e., court does not issue injunctive relief in connection with the DA Ordinance and other Initial Approvals and therefore said approvals are presumed valid), then the parties may, but are not required, to extend this Agreement by mutual consent pursuant to Section 4.3 below.

4.3 Extension by Agreement. The Term may be extended at any time before its termination date by the parties' mutual agreement.

## **Section 5. Periodic Compliance Review.**

County shall review each Owner's respective good faith compliance with the terms of this Agreement on an annual basis. This periodic compliance review shall be conducted in accordance with the Development Agreement Statute and the County's Development Agreement Procedures, and shall address all items set forth therein, and include, among other things, Owners' Development Impact Fee payment obligations under Section 3.2 above and Owners' other payment obligations hereunder ("**Periodic Review**"). The applicable Owner(s) shall reimburse County for the actual costs of preparing for and conducting the Periodic Review within thirty (30) days of written demand from County. Upon completion of a Periodic Review, County shall provide an Estoppel Certificate as described in Section 12.21 below in substantially the same form attached as Exhibit 12 upon request of the applicable Owner(s).

If County finds and determines during the Periodic Review that an Owner is not in compliance with the terms and conditions of this Agreement for the period under review, County may provide a Notice of Default to said Owner pursuant to the provisions of Section 6.1 below. Prior to any further action taken under this Agreement, County and Owner not in compliance shall meet and confer regarding the alleged default as required by Section 9.1 below. If after compliance with the provisions of Section 9.1, a Dispute remains regarding compliance with this Agreement, County or applicable Owner(s), in accordance with Sections 6 and 9.2 below, may either elect to cure the default, challenge such default determination by instituting arbitration proceedings pursuant to Section 9.2 below, in which event the arbitrator shall exercise its review, based on substantial evidence, as to the existence of default, and/or elect to pursue other remedies as set forth in this Agreement. The arbitration determination shall be binding on County and the Owner at issue.

**Section 6. Default; Cure; Remedies.**

6.1 Notice of Default. Failure or unreasonable delay by County or an Owner to perform any material provision herein shall constitute a default under this Agreement. In the event of a default, the party alleging such default shall give the defaulting party not less than thirty (30) days' written notice of default ("**Notice of Default**") in the manner set forth in Section 12.12 below, unless the parties extend such time by mutual written consent or except in cases where an Owner's default presents a threat of imminent harm to the public; provided, however, failure or delay in giving a Notice of Default shall not waive a party's right to give future notice of the same or any other default. The Notice of Default shall specify the nature of the alleged default, the manner and period of time in which said default may be satisfactorily cured, and shall otherwise adhere to the noticing requirements set forth in this Agreement. The time of the Notice of Default shall be measured from the date actually delivered in accordance with Section 12.12 below. Notwithstanding any provision in this Section 6.1 to the contrary, in the event and to the extent this Agreement expressly and solely obligates a particular Owner, then a default by the expressly obligated Owner shall not constitute a default by any other Owner(s) ("**Innocent Owner**"). No Innocent Owner shall have any liability to County for or concerning said default by the expressly obligated Owner, and County's decision to terminate this Agreement as a result of said default as it relates to said obligation shall not result in termination of this Agreement on that basis with respect to the Innocent Owner or that portion of the Property owned legally or equitably by the Innocent Owner.

6.2 Cure Period; Right to Terminate or Initiate Arbitration Proceedings. The defaulting party shall provide evidence establishing it was never, in fact, in default or shall cure the default within thirty (30) days; provided, however, that if the nature of the alleged default is such that it cannot be reasonably cured within such 30-day period, the commencement of the cure within such time period and the diligent prosecution to completion of the cure shall be deemed a cure within such period. During any period of curing, the party charged shall not be considered in default for purposes of terminating this Agreement or instituting arbitration proceedings. If the default is cured, then no default shall exist or be deemed to have existed and the noticing party shall take no further action. After proper notice and the expiration of such 30-day cure period without cure and subject to the Dispute Resolution process set forth in Section 9.1 and 9.2 below, the noticing party, at its option, may terminate this Agreement without legal action pursuant to Section 8.2 below.

6.3 Remedies Generally. The parties agree that remedies to enforce the terms of this Agreement shall be limited to actions for mandamus, specific performance, declaratory relief, injunctive relief or other equitable relief, and that no party shall be liable for monetary damages. Notwithstanding anything to the contrary in this Section 6.3, County reserves the right to seek payment from the applicable Owner(s) through binding arbitration proceedings for any fees, charges, costs or other monies owed under this Agreement, and to obtain recovery thereof. Likewise, Owners reserve the right to seek repayment from County of the actual amount of any Development Impact Fees (or land or improvements provided by Owners in lieu thereof) that County imposed on the Project that violated Owners' rights under Section 3.2 above.

**Section 7. Enforced Delay; Extension of Time of Performance.** No party shall be deemed in default of its obligations under this Agreement where a delay or default is due to an act of God, natural disaster, accident, breakage or failure of equipment, enactment of conflicting federal or state laws or regulations, third-party litigation, strikes, lockouts or other labor disturbances or disputes of any character, interruption of services by suppliers thereof,

unavailability of materials or labor, rationing or restrictions on the use of utilities or public transportation whether due to energy shortages or other causes, war, civil disturbance, riot, or by any other severe and unforeseeable occurrence that is beyond the control of that party (collectively, “**Enforced Delay**”); provided, however, the parties agree a delay that results from unforeseen economic circumstances shall not constitute an Enforced Delay for purposes of this Section 7. Performance by a party of its obligations under this Section 7 shall be excused during, and extended for a period of time equal to, the period (on a day-for-day basis) for which the cause of such Enforced Delay is in effect.

## **Section 8. Termination.**

8.1 Termination Upon Completion of Project or Expiration of Term. This Agreement shall terminate upon the expiration of the Term (plus any extensions mutually agreed upon in accordance with Section 4 above or as otherwise provided for in this Agreement) or when Full Build Out of the Project has occurred as provided for in this Agreement and other Project Approvals, and all of Owners’ obligations hereunder have been satisfied, whichever is earlier. Upon termination of this Agreement, the County Recorder may cause a notice of such termination in a form satisfactory to County Counsel to be duly recorded in the official records of San Benito County. Following expiration of the Term, this Agreement shall be deemed terminated and of no further force and effect except for any and all obligations provided herein that expressly provide that they shall survive termination.

8.2 Termination Due to Default. After notice and expiration of the thirty (30) day cure period and after satisfaction of the Dispute Resolution obligations set forth in Section 9.1 below, if the default has not been cured or it is not being diligently cured in the manner set forth above, the noticing party may, at its option, give notice of its intent to terminate this Agreement (“**Notice of Intent to Terminate**”) with such termination becoming effective sixty (60) days after such notice is provided unless the party receiving the notice elects to commence arbitration pursuant to Section 9.2 below or seek judicial relief. Notwithstanding anything to the contrary in this Section 8.2, a written Notice of Intent to Terminate given under this Section 8.2 is effective to terminate the obligations of the noticing party only if a default has occurred, and such default, as a matter of law, authorizes the noticing party to terminate its obligations under this Agreement. In the event the noticing party is not so authorized to terminate, the party alleged to be in default shall have all rights and remedies provided herein or under applicable law, including, without limitation, the right to specific performance of this Agreement. Once the noticing party has given a Notice of Intent to Terminate, and the defaulting party elects to take no further action contesting the decision, arbitration proceedings may be instituted to obtain a declaratory judgment determining the respective termination rights and obligations under this Agreement.

8.3 Termination of Agreement with Respect to Individual Units Upon Sale to Ultimate User and Completion of Construction. The assignment and assumption provisions of Section 10.1 and 10.2 below shall not apply, and the obligations hereunder shall terminate with respect to any unit and the owner of such unit shall be released and no longer be subject to this Agreement without the execution or recordation of any further document upon satisfaction of both of the following conditions:

- (a) The lot upon which the unit is located has been finally subdivided and individually (i.e., not in “bulk”) sold to a member of the public or other ultimate user; and
- (b) A Certificate of Occupancy has been issued for a residential building on said lot.

8.4 Termination by Mutual Consent. This Agreement may be terminated by mutual consent of the parties in the manner provided in the Development Agreement Statute and herein.

## **Section 9. Dispute Resolution**

9.1 Informal Discussions; Mediation. If a dispute arises related to the interpretation or enforcement of, or compliance with, the provisions of this Agreement ("**Dispute**"), County and the applicable Owner(s) shall first attempt to resolve it through informal discussions. In the event a Dispute cannot be resolved in this manner within twenty one (21) days, County and the applicable Owner(s) shall endeavor to settle the Dispute by mediation. The Dispute shall be submitted to the San Jose, California office of Judicial Arbitration and Mediation Services, Inc. ("**JAMS**") for mediation, and shall take place at JAMS' San Jose Office; if the matter is not resolved through mediation, then it shall be submitted to JAMS for final binding arbitration pursuant to Section 9.2 below. Either County or the applicable Owner(s) may commence mediation by providing to JAMS and the other party(ies) a written request for mediation setting forth the subject of the Dispute and the relief requested. County and the applicable Owner(s) shall cooperate with JAMS and with one another in selecting a mediator from JAMS' panel of neutrals, who shall be a retired judge, and in scheduling the mediation proceedings. If the parties cannot agree on the appointment of the mediator or the date of the mediation within thirty (30) days after the written request for mediation has been received, then JAMS shall: (a) provide the parties with a list of ten (10) mediators and give each party the opportunity to strike three (3) names on said list and rank the remainder, and (b) select the mediator who, collectively, is the highest ranked by the parties. The selected mediator shall then promptly set a mediation date, for which the parties shall agree. County and the applicable Owner(s) agree to participate in any such mediation in good faith. The costs and fees of mediation (including, without limitation, those costs and fees set forth in JAMS' fee schedule in effect at the time of commencement of the mediation) shall be borne equally by County and the applicable Owner(s); provided, however, each party shall be responsible for its own attorneys' fees and any expert witness fees in connection with said proceedings. All offers, promises, conduct, and statements, whether oral or written, made in the course of the mediation by any of the parties, their respective agents, employees, experts and attorneys, and by the mediator and any JAMS employees, shall be treated by the parties as confidential, privileged, and inadmissible for any purpose, including impeachment, in any arbitration or other proceeding involving the parties, provided that evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable as a result of its use in the mediation. Any party may seek equitable relief prior to the mediation to preserve the status quo pending the completion of that process.

9.2 Arbitration. Either County or the applicable Owner(s) may initiate arbitration with respect to a Dispute by filing a written demand for arbitration at any time following completion of the informal dispute resolution and mediation processes described in Section 9.1 above; provided, however, that mediation may continue after the commencement of arbitration, if County and the applicable Owner(s) so mutually desire. Unless otherwise agreed to by County and the applicable Owner(s), the mediator shall be disqualified from serving as the arbitrator in the case. The provisions of this Section 9.2 may be enforced by any court of competent jurisdiction, and the prevailing party shall be entitled to an award of all costs, fees, and expenses, including attorneys' fees, to be paid by the non-prevailing party. Any Dispute arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation or validity thereof, including the determination of the scope or

applicability of this Agreement to arbitrate, which is not resolved by the mediation process set forth above, shall be determined by arbitration to be held in San Jose, California before one (1) arbitrator who shall be a retired judge. The arbitrator shall apply the law in the same manner as in a judicial proceeding. No party may request an arbitration hearing until after the completion of informal dispute resolution and mediation processes under Section 9.1 above are complete. The arbitration shall be administered by JAMS pursuant to its Streamlined Arbitration Rules and Procedures, which rules shall govern the commencement of arbitration. If the parties cannot agree on the appointment of an arbitrator, then JAMS shall: (a) provide the parties with a list of ten (10) arbitrators and give each party the opportunity to strike three (3) names from the list and rank the remainder, and (b) shall select the arbitrator who is, collectively, the highest ranked by the parties. Judgment on the arbitration award may be entered in the San Benito County Superior Court or any court having jurisdiction. This Section 9.2 shall not preclude County or the applicable Owner(s) from seeking provisional remedies in aid of arbitration from a court of competent jurisdiction. The costs and fees of arbitration (including, without limitation, those costs and fees set forth in JAMS' fee schedule in effect at the time of commencement of the arbitration) shall be borne equally by County and the applicable Owner(s); provided, however, the prevailing party in said proceeding shall be entitled to recover for its own attorneys' fees and any expert witness fees.

9.3 Good Faith Participation in Dispute Resolution. The dispute resolution process described under Sections 9.1 and 9.2 above shall be undertaken in good faith. The parties may select a mediator or arbitrator utilizing another methodology than that which is set forth in Sections 9.1 and 9.2 above upon the parties' mutual written agreement. By agreeing to the above-referenced dispute resolution process, neither County nor the applicable Owner(s) hereby loses or waives its right to assert the operation of any applicable statute of limitations as an affirmative defense. Any arbitration award or determination shall be final and binding upon County and the applicable Owner(s) and each shall accept such decision and award and/or determination as binding and conclusive and shall abide thereby and no party to said proceeding may commence civil litigation as a means of resolving the Dispute that was at issue in said proceeding except for an action to obtain equitable relief.

9.4 Attorneys' Fees and Dispute Resolution Costs. Except as otherwise provided in Sections 9.1 and 9.2 above, in any action or proceeding brought by any party to enforce or interpret a provision of this Agreement, or to seek specific performance or injunctive relief or declaratory relief against any other party to this Agreement, the prevailing party is entitled to recover attorneys' fees and any other costs incurred in the action or proceeding in addition to any other relief to which it is entitled.

## **Section 10. Assignment and Assumption; Rights and Duties of Mortgagees.**

10.1 Assignment of Rights, Interests and Obligations. Subject to compliance with this Section 10.1 and Section 10.2 below, an Owner may sell, assign or transfer (collectively, "**Assignment**") in whole or in part the Property to any individual or entity at any time during the Term of this Agreement. Said Owner shall seek County's prior written consent to any Assignment (which shall be documented in a form substantially the same as attached Exhibit 10) ("**Consent to Assignment**"), which consent shall not be unreasonably withheld or delayed; provided, however, that such consent shall not be required if the proposed Assignment would involve an entity directly related to any of the entities that make up said Owner such that it holds a majority interest (fifty-one percent (51%) or more) therein, or if the proposed Assignment

would involve an entity such that the Owner at issue would retain a minimum of fifty one percent (51%) of the ownership or beneficial interest and would retain management and control of that portion of the Property so Assigned. County may refuse to give its consent to a requested Assignment only if, in light of the following factors: (a) financial strength and capability of the proposed Subsequent Owner to perform the obligations of this Agreement; and (b) the proposed Subsequent Owner's experience and expertise in planning, financing, development, ownership, and operation of similar projects; such Subsequent Owner would not be able to perform the obligations hereunder proposed to be assumed by such Subsequent Owner. Such determination shall be made by the Planning Director, and the Planning Director's decision is appealable by said Owner to the Board, which shall also evaluate the decision based on the criteria specified above. Failure by County to respond within sixty (60) days to any request made by an Owner for the required consent shall be deemed to be County's approval of the Assignment. Notwithstanding anything to the contrary in this Section 10.1 and in accordance with Section 8.3 above, this Section 10.1 shall not apply to: the owner of any residential unit located on a lot that has been finally subdivided and individually sold to the ultimate user and a Certificate of Occupancy has been issued for a residential building on said lot; any mortgage, deed of trust, sale/leaseback or other form of conveyance for financing (subject to Section 11.2 below); the granting of any easement interests or offers of dedication to any governmental or quasi-governmental agency or utility; or the transfer of common areas to a homeowner's association(s) formed in connection with the Project. Further, the parties agree that upon receipt of a payment from a foreclosing Mortgagee, County shall permit said Assignment in accordance with Section 11.2 below.

10.2 Assumption of Rights, Interests and Obligations. Express written assumption by a proposed individual or entity of the obligations and other terms and conditions of this Agreement with respect to that portion (or all) of the Property thereof Assigned, shall relieve the applicable Owner of such obligations so expressly assumed. The Assignment and Assumption Agreement shall be substantially in the form attached as Exhibit 11 to this Agreement ("**Assignment and Assumption Agreement**"), shall be recordable and shall be approved as to form by County Counsel. Said agreement shall provide for the proposed Subsequent Owner to contractually assume and be bound by all of the applicable Owner's obligations under this Agreement with respect to the Property, or portion(s) thereof, which are Assigned to the proposed Subsequent Owner. The applicable Owner shall ensure that such Assignment and Assumption Agreement is recorded by the County Recorder in the official records of San Benito County within ten (10) days of receipt after County executes the required Consent to Assignment, or as promptly thereafter as feasible. Subject to County's consent of such Assignment pursuant to Section 10.1 above, upon recordation of said Assignment and Assumption Agreement, the applicable Owner shall automatically be released from those obligations expressly assumed by the Subsequent Owner at issue.

## **Section 11. Rights and Duties of Mortgagee in Possession of Property.**

11.1 Mortgagee Successor Generally. This Agreement shall be superior and senior to all liens placed upon the Property or any portion thereof after the Effective Date, including, without limitation, the lien of any Mortgage. Notwithstanding anything to the contrary in this Section 11.1, no breach of this Agreement shall defeat, render invalid, diminish or impair any Mortgage made in good faith and for value; provided, however, this Agreement shall be binding upon and effective against all persons and entities, including all Mortgagees who acquire title to the Property or any portion thereof by foreclosure, trustee's sale, deed in lieu of foreclosure or otherwise, and including any subsequent transferee of the Property acquired by foreclosure,

trustee's sale, deed in lieu of foreclosure, or otherwise after the Effective Date (in either case, a "**Mortgage Successor**"), subject, however, to the terms of Section 11.2 below.

11.2 Rights and Obligations Hereunder. The provisions of Section 11.1 above notwithstanding, a Mortgage Successor shall have the right but not any obligation under this Agreement to commence or complete the construction of any Project Infrastructure, or to guarantee such construction or completion. County, upon receipt of a written request from a foreclosing Mortgagee, shall permit the Mortgagee to succeed to the rights and obligations of the Owner at issue under this Agreement. The foreclosing Mortgagee shall be obligated to comply with this Agreement, including, without limitation, complying with the requirements set forth in Section 10.2 above. Notwithstanding anything to the contrary in this Section 11.2, a Mortgage Successor shall not be entitled to construct the Project and/or develop the Property pursuant to the Project Approvals unless and until said Mortgage Successor enters into an Assignment Agreement with the County in a form acceptable to the County whereby said Mortgage Successor expressly assumes any and all rights and obligations of the applicable Owner hereunder. In the event that any Mortgage Successor shall acquire title to the Property or any portion thereof, the Mortgage Successor further shall not be (a) liable for any breach or default under this Agreement on the part of any Owner or its successor, or (b) obligated to cure any breach or default under this Agreement on the part of any Owner or its successor. Provided, however, in the event such Mortgage Successor desires to succeed to an Owner's rights, benefits, privileges and obligations under this Agreement, however, County may, in its sole discretion, condition such succession upon the assumption of this Agreement by the Mortgage Successor of the obligation to cure any breach or default on the applicable Owner's part.

11.3 Notice. If County receives notice from a Mortgagee requesting a copy of any Notice of Default regarding compliance with this Agreement as it relates to all or a portion of the Property, then County shall deliver said notice to such Mortgagee, concurrently with service thereof to each Owner, any notice given to Owner with respect to any claim by County that said Owner is in default. Each Mortgagee shall have the right (but not the obligation) for a period of ninety (90) days after receipt of such notice to cure, or to commence to cure, the alleged default set forth in said notice in accordance with Section 6.2 above. If the default or such noncompliance is of a nature that can only be remedied or cured by such Mortgagee upon obtaining possession, such Mortgagee shall have the right (but not the obligation) to seek to obtain possession with diligence and continuity through a receiver or otherwise, and thereafter to remedy or cure the default within ninety (90) days after obtaining possession, except if any such default cannot, with diligence, be remedied or cured within such ninety (90) day period, then such Mortgagee shall have such additional time as may be reasonably necessary to remedy or cure such default if such Mortgagee commences cure during such ninety (90) day period, and thereafter diligently pursues completion of such cure to the extent possible. Notwithstanding anything to the contrary in this Section 11.3, nothing contained in this Agreement shall be deemed to permit or authorize any Mortgagee or Mortgage Successor to undertake or continue construction or completion of any improvements comprising the Project (beyond the extent necessary to conserve or protect improvements or construction already made) without first having expressly assumed the defaulting Owner's continuing obligations hereunder in the manner specified in Section 11.2 above.

## **Section 12. General Provisions.**

12.1 Independent Contractors. Each party is an independent contractor and shall be solely responsible for the employment, acts, omissions, control and directing of its employees

and its other agents. All persons employed or utilized by an Owner in connection with this Agreement and the Project shall not be considered employees of County in any respect. Except as expressly set forth herein, nothing contained in this Agreement shall authorize or empower any party to assume or create any obligation whatsoever, express or implied, on behalf of any other party or to bind any other party or to make any representation, warranty or commitment on behalf of any other party.

12.2 Invalidity of Agreement and Severability of Provisions. If this Agreement in its entirety is determined by a court to be invalid or unenforceable, this Agreement shall automatically terminate as of the date of final entry of judgment, including any appeals. If any provision of this Agreement shall be determined by a court to be invalid and unenforceable, that provision shall not affect, impair, or invalidate any other provision, and the remaining provisions shall continue in full force and effect unless the court determination affects a material part of the Agreement in which case the parties shall comply with the provisions of Section 3.3 above.

12.3 No Third Party Beneficiary. There are no third party beneficiaries to this Agreement, and this Agreement is not intended, and shall not be construed to benefit or be enforceable by any other person or entity other than the parties to this Agreement.

12.4 Execution of Other Instruments. Each party shall execute and deliver to the other parties all other instruments and documents as may be reasonably necessary to carry out the purpose of this Agreement in order to provide or secure to the other parties the rights and privileges granted by this Agreement.

12.5 Time of Essence. Time is of the essence in the performance of each and every covenant and obligation to be performed by the parties hereunder, including, without limitation, the resolution of any Dispute which may arise concerning the obligations of Owner(s) and County as set forth in this Agreement.

12.6 Amendments. This Agreement may be amended from time to time by mutual consent of the parties, in accordance with the Development Agreement Statute and the County Development Procedures. In the event the parties amend this Agreement, the party requesting said amendment shall record the amended Agreement with the County Recorder to in the official records of San Benito County within ten (10) days of the amended Agreement being fully executed by all parties.

12.7 Subsequent Approvals Do Not Require Amendment; Effect of Amendment.

(a) No Amendment to Agreement for Subsequent Approvals. County's approval of any Subsequent Approval shall not require an amendment to this Agreement except in the event and to the extent an Owner expressly seeks and County approves such amendment in connection with Subsequent Approval(s). Upon County's approval of any Subsequent Approval, it shall become part of the Project Approvals governing development of the Project covered by this Agreement.

(b) Effect of Amendment to Development Agreement. Except as expressly set forth therein, an approved amendment to this Agreement shall not be construed to materially modify, impair, or waive any other rights or obligations of any party under this Agreement that were not modified as a result of said amendment.



12.8 Project is a Private Undertaking. The parties agree that: (a) any development by Owners of the Property shall be a private development; (b) County has no interest in or responsibilities for or duty to third parties concerning any Project Infrastructure constructed in connection with the Property until such time that County accepts the same pursuant to the provisions of this Agreement or in connection with any subdivision map approvals; (c) the contractual relationship between County and Owners is such that Owners are independent contractors and are not agents of County; and (d) nothing in this Agreement is intended or shall be construed to create or reflect any form of partnership or joint venture among the parties. The only relationship between County and each of the Owners is that of a government entity regulating the development of private property and the owners of such private property.

12.9 No Discrimination Permitted. No Owner shall not discriminate in any way against any person on the basis of race, color, national origin, sex, marital status, sexual orientation, age, creed, religion, or condition of physical disability in connection with or related to the performance of this Agreement.

12.10 Covenants Running with the Land. Subject to Section 10 above and pursuant to the Development Agreement Statute, all of the provisions contained in this Agreement are binding upon and benefit the parties and their respective heirs, successors and assigns, representatives, lessees, and all other persons acquiring all or any portion of the Property, whether by operation of law or in any manner whatsoever, during their ownership of the Property, or any portion thereof. All of the provisions of this Agreement constitute covenants running with land pursuant to California law.

12.11 Recordation of Agreement. Owners shall cause this Agreement to be duly recorded in the official records of San Benito County at the time provided for in this Agreement.

12.12 Notices. Any notice required under this Agreement shall be in writing and personally delivered, or sent by certified mail (return receipt requested and postage prepaid), overnight delivery, with a courtesy copy by email to the following:

County: San Benito County Planning and Building Department  
Attn: Planning Director  
3224 Southside Road  
Hollister, CA 95023  
Telephone: (831) 637-5313  
Email: BTurner@cosb.us

Copy to: County Counsel's Office  
Attn: County Counsel  
481 4th Street, 2nd Floor  
Hollister, CA 95023  
Telephone: (831) 636-4040  
Email: MGranger@cosb.us

Copy to: Miller Starr Regalia  
Attn: Nadia Costa, Esq.  
1331 N. California Blvd., Fifth Floor  
Walnut Creek, CA 94596  
Telephone: (925) 935-9400  
Email: nadia.costa@msrlegal.com

Pulte: Pulte Home Corporation  
 Attn: John S. Kalmbach, Division President  
 6210 Stoneridge Mall Road, Suite 500  
 Pleasanton, CA 94588  
 Email: Steve.Kalmbach@PulteGroup.com

SJO: San Juan Oaks, LLC  
 Attn: Ken Gimelli, President  
 3825 Union Road  
 Hollister, CA 95023  
 Email: Kkgimelli@aol.com

Copy to: Pulte Group  
 Donald J. Sajor, Esq., Vice President & Division General Counsel  
 27101 Puerta Real, Suite 300  
 Mission Viejo, CA 92691  
 Email: don.sajor@pultegroup.com

AND San Juan Oaks  
 Attn: Scott Fuller, General Manager  
 3825 Union Road  
 Hollister, CA 95023  
 Email: Scott@sanjuanoaks.com

AND Brownstein Hyatt Farber Schreck  
 Attn: Lisabeth Rothman, Esq.  
 2049 Century Park East, Suite 3550  
 Los Angeles, CA 90067  
 Telephone: 310.500.4600  
 Email: lrothman@bhfs.com

Any Notice to a Mortgagee by County shall be given as provided above using the address provided by such Mortgagee. Any Notice to a Subsequent Owner shall be given by County as required above only for those Subsequent Owners who have given County written notice of their addresses for the purpose of receiving such notices. Any party may change its mailing address/email at any time by giving written notice of such change to the other parties in the manner provided herein at least ten (10) days prior to the date such change is effected. All notices under this Agreement shall be deemed given, received, made or communicated on the earlier of the date personal delivery is effected or on the delivery date shown on the return receipt, air bill or email.

12.13 Prevailing Wage. Owners shall be solely responsible for determining whether construction of any or all of the Project Infrastructure required in connection with the Project trigger the obligation to pay prevailing wages under California or federal law. In the event and to the extent that payment of prevailing wages is required, Owners shall comply with those requirements. Owners shall defend, indemnify and hold harmless County, its agents, employees, officers and officials from any claims, injury, liability, loss, costs or damages sought by a third party for a failure to pay prevailing wages in connection with the Project. The indemnification obligation set forth in this Section 12.13 shall survive the termination of this Agreement if the statute of limitations on any prevailing wage claim has not yet run.

12.14 Applicable Law. This Agreement shall be construed and enforced in accordance with the laws of the State of California.

12.15 Venue. Any action brought relating to this Agreement shall be held exclusively in a state court in the County of San Benito.

12.16 Reimbursement Agreement. The parties acknowledge and agree that Owners shall be responsible for any and all costs incurred by County in connection with the processing of the Project Approvals in accordance with the Reimbursement Agreement (as it may be amended from time to time). In the event that Owners fail to satisfy said obligations, County may, in its discretion, halt the processing of any applications for Project Approval(s) until said obligations have been fully satisfied.

12.17 Cooperation in the Event of Legal Challenge; Indemnification. In the event of any legal action or proceeding brought by a third party challenging the validity of this Agreement or any provision hereof or any Project Approval ("**Legal Challenge**"), the parties shall cooperate in defending said action or proceeding as provided for in this Section 12.17. County shall provide Owners with notice of the pendency of such action or proceeding and may, in its discretion, request that Owners defend such action or proceeding. It being understood that the Project is a private undertaking, the parties may agree that it is Owners' primary responsibility to defend any Legal Challenge, as defined herein. In this event, Owners shall engage the services of competent counsel at their sole cost and expense ("**Defense Counsel**"), subject to County's reasonable approval, to defend the parties' interests in any Legal Challenge challenging any aspect of the Project Approval(s); provided, however, that nothing in this Section 12.17 shall preclude County Counsel's involvement in the Legal Challenge to defend County's interest therein. Furthermore, in accordance with the Reimbursement Agreement between County and Owners, in the event that County determines, in its sole and absolute discretion, that separate counsel is necessary to serve the interests of the County and the public welfare, County may retain special counsel, for which Owners shall pay all actual legal fees and costs related thereto. If County retains special counsel in accordance with this Section 12.17, County shall direct special counsel to cooperate with Defense Counsel to the extent feasible and to use diligent and good faith efforts to avoid duplication with the efforts of Defense Counsel; such efforts may include, for example, the filing of joint briefs and other papers. Defense Counsel, County Counsel, and County's special counsel, if any, shall consult with each other and act in good faith in considering any settlement or compromise of any Legal Challenge. During the pendency of any legal challenge, this Agreement and all Project approvals shall remain in place subject to any changes that may be required by judicial determination.

Owners further agree to and shall defend and hold harmless County, its agents, employees, officers, and officials from any claims, injury, liability, loss, costs or damages sought by a third party, relating to personal injury, death or property damage, arising from or relating to the construction of the Project by an Owner(s) or those of its employees, officers, agents, contractors or subcontractors. It is understood that Owners' duty to indemnify and hold harmless under this Section 12.17 includes the duty to defend as set forth in California Civil Code Section 2778; the parties further agree that County shall have the option to choose its own legal representation for which Owners shall pay all actual legal fees and costs related thereto. Acceptance by County of insurance certificates and endorsements required under this Agreement does not relieve Owners from liability hereunder. The provisions of this Section 12.17 shall survive the termination of this Agreement, for any reason other than the County's default.

12.18 No Waiver. No waiver by any party of any provision of this Agreement shall be considered a waiver of any other provision or any subsequent breach of the same or any other provision, including, without limitation, the time for performance of any such provision. The exercise by a party of any right or remedy provided in this Agreement or provided by law shall not prevent the exercise by that party of any other remedy provided in this Agreement or under the law.

12.19 Construction. This Agreement has been reviewed and revised by legal counsel for both County and Owners, and no presumption or rule that ambiguities shall be construed against the drafting party shall apply to the interpretation or enforcement of this Agreement. The provisions of this Agreement and the attached exhibits shall be construed as a whole according to their common meaning and not strictly for or against any party, and in a manner that shall achieve the purposes of this Agreement. Wherever required by the context, the masculine gender shall include the feminine or neuter genders, or vice versa.

12.20 Entire Agreement. This Agreement and all exhibits hereto constitute the entire agreement between the parties and supersede all prior discussions, negotiations, and agreements whether oral or written. Any oral representations or modifications concerning this instrument shall be of no force or effect unless contained in a subsequent written modification signed by both parties.

12.21 Estoppel Certificate. Any party from time to time (or a Mortgagee under Section 11) may deliver written notice to the other parties requesting an Estoppel Certificate stating: (a) this Agreement is in full force and effect and constitutes a binding obligation of the parties; (b) this Agreement has not been amended either orally or in writing, or if it has been amended, specifying the nature of the amendment(s); and (c) there are no existing defaults in the performance of its obligations under this Agreement to the actual knowledge of the party signing the Estoppel Certificate. A party receiving a request shall execute and return the certificate within thirty (30) days after receipt thereof. The Planning Director shall, on County's behalf, have the right to execute any certificate requested by the applicable Owner. The Estoppel Certificate shall be substantially in the same form as attached Exhibit 12. An Estoppel Certificate prepared in accordance with this Section 12.21 may be relied on by Assignees and Mortgagees.

12.22 Counterparts. This Agreement and any and all amendments thereto may be executed in multiple counterparts, and all counterparts together shall be construed as one document.

12.23 Authority to Execute. Each party hereto expressly warrants and represents that it has the authority to execute this Agreement on behalf of its entity and warrants and represents that it has the authority to bind its entity to the performance of its obligations hereunder.

12.24 Captions. The caption headings and subsection headings provided herein are for convenience only and shall not affect the construction of this Agreement.

12.25 Recitals. The recitals in this Agreement constitute part of this Agreement and each party shall be entitled to rely on the truth and accuracy of each recital.

12.26 Compliance, Monitoring, and Management Duties; Default. If an Owner fails to perform any duties related to compliance review processes, monitoring, or the management of

any programs as required herein, County has the right, but not the obligation, to undertake such duties and perform them at said Owner's sole expense.

12.27 Listing and Incorporation of Exhibits.

The exhibits to this Agreement, each of which is hereby incorporated herein by reference, are as follows:

- Exhibit 1: Legal Description of the Property
- Exhibit 2: Map of the Property
- Exhibit 3: San Juan Oaks Drive/Union Road Intersection Improvements
- Exhibit 4: Form of Agricultural Easement for On-Site Agricultural Preserve
- Exhibit 5: Public Safety Facility Site
- Exhibit 6: Permanent Wildlife Habitat Area
- Exhibit 7: On-Site Agricultural Preserve
- Exhibit 8: Off-Site Agricultural Preserve
- Exhibit 9: Development Impact Fees
- Exhibit 10: Form of Consent to Assignment
- Exhibit 11: Form of Assignment and Assumption Agreement
- Exhibit 12: Form of Estoppel Certificate

COUNTY OF SAN BENITO

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Director, San Benito County Planning &  
Building Department  
Date:

APPROVED AS TO FORM:  
San Benito County Counsel's Office

---

Matthew Granger  
County Counsel  
Date:

SAN JUAN OAKS, a California limited liability company

By:

---

Scott Fuller

Its: General Manager

PULTE HOME CORPORATION, a Michigan corporation

By:

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John S. Kalmbach

Its: Division President

APPROVED AS TO FORM:  
Brownstein Hyatt Farber Schreck

---

Date:

**EXHIBIT 1**  
**LEGAL DESCRIPTIONS OF SAN JUAN OAKS PARCELS**

**Parcel 1**

Certain real property situate in the unincorporated area of the County of San Benito, State of California, being a portion of the parcel of land described in deed from San Juan Valley, a California Limited Partnership to Rancho San Justo Company, a California Corporation, dated December 24, 1994 and filed for record in the office of the County recorder of said County on January 5, 1995 under Recorder's Instrument Number 9500071, and a portion of the parcel of land described in the Memorandum of Agreement between San Juan Valley, a California Limited Partnership and Rancho San Justo Company, a California Corporation, dated January 5, 1995 and filed for record in the office of the County recorder of said County on January 5, 1995, under Recorder's Instrument Number 9500074, said portions being particularly described as follows:

**Beginning** at a point in the easterly boundary of said parcel described under Recorder's Instrument Number 9500071, at the easterly terminus of course number (24) therein; thence, along said easterly boundary

- (1) S. 63° 01' 18" W., 879.16 feet; thence
- (2) S. 26° 31' 58" W., 271.35 feet, thence
- (3) S. 45° 21' 17" E., 1059.96 feet; thence
- (4) S. 43° 34' 38" W., 1410.76 feet; thence
- (5) S. 46° 25' 22" E., 108.27 feet; thence
- (6) N. 83° 31' 22" E., 557.74 feet; thence
- (7) S. 46° 25' 22" E., 353.84 feet; thence
- (8) S. 43° 39' 45" W., 799.70 feet; thence depart said easterly boundary
- (9) N. 65° 19' 42" W., 1753.74 feet; thence
- (10) S. 61° 35' 02" W., 354.54 feet; thence
- (11) N. 52° 24' 57" W., 292.55 feet; thence
- (12) S. 69° 30' 32" W., 839.86 feet; thence
- (13) N. 72° 45' 51" W., 430.95 feet; thence
- (14) N. 86° 48' 57" W., 523.48 feet; thence
- (15) N. 19° 32' 00" W., 304.24 feet; thence
- (16) N. 66° 05' 43" W., 785.71 feet; thence

- (17) N. 83° 05' 53" W., 779.03 feet; thence
- (18) S. 18° 24' 18" W., 1683.23 feet; thence
- (19) S. 53° 27' 19" W., 1039.05 feet, to a point on the westerly boundary of said parcel described under Recorder's Instrument Number 9500071, at the northerly terminus of course number (54) therein; thence depart said westerly boundary
- (20) N. 4° 09' 19" W., 1206.20 feet; thence
- (21) N. 44° 03' 31" E., 558.26 feet; thence
- (22) N. 34° 01' 56" W., 269.78 feet; thence
- (23) N. 29° 52' 02" E., 377.00 feet; thence
- (24) N. 60° 45' 35" E., 296.82 feet; thence
- (25) N. 22° 07' 19" E., 212.78 feet; thence
- (26) N. 9° 51' 10" W., 121.84 feet; thence
- (27) N. 24° 19' 05" E., 189.55 feet; thence
- (28) N. 1° 28' 38" W., 391.64 feet; thence
- (29) N. 9° 27' 25" E., 500.76 feet; thence
- (30) N. 88° 31' 22" E., 322.12 feet; thence
- (31) N. 49° 07' 30" E., 492.71 feet; thence
- (32) Along the arc of a non-tangent circular curve, the center of which bears S. 49° 07' 30" W., 742.00 feet distant, through a central angle of 6° 31' 50", for an arc distance of 84.57 feet; thence
- (33) Along the arc of a tangent circular curve to the right, with a radius of 562.00 feet, through a central angle of 47° 33' 05", for an arc distance of 466.42 feet; thence tangentially
- (34) N. 0° 08' 45" E., 264.59 feet; thence
- (35) Along the arc of a tangent circular curve to the right, with a radius of 548.00 feet, through a central angle of 77° 41' 42", for an arc distance of 743.11 feet; thence tangentially
- (36) N. 79° 50' 26" E., 613.57 feet; thence
- (37) S. 63° 20' 00" E., 1138.29 feet; thence
- (38) N. 26° 42' 09" E., 1306.74 feet; thence



- (39) N. 84° 51' 37" E., 473.96 feet; thence
- (40) Along the arc of a tangent circular curve to the right, with a radius of 350.00 feet, through a central angle of 31° 51' 23", for an arc distance of 194.60 feet; thence tangentially
- (41) S. 63° 17' 00" E., 810.50 feet; thence
- (42) N. 26° 03' 17" E., 238.65 feet to a point on the northeasterly boundary of said parcel described under Recorder's Instrument Number 9500071, at the southerly terminus of course number (19) therein; thence along said northeasterly boundary
- (43) S. 50° 39' 06" E., 888.42 feet; thence
- (44) S. 57° 49' 06" E., 456.27 feet; thence
- (45) S. 46° 51' 41" E., 278.37 feet; thence
- (46) S. 47° 08' 44" E., 691.06 feet; thence
- (47) S. 55° 16' 03" E., 528.18 feet, to the **point of beginning**.

## PARCEL 2

Certain real property situate in the unincorporated area of the County of San Benito, State of California, lying in the western or Flint-Bixby part of the Rancho San Justo, and being a portion of the parcel of land described in deed from Silver Creek Valley, A California Limited Partnership, to Rancho San Justo Company, a California Corporation, dated December 24, 1994 and filed for record in the office of the County recorder of said County on January 5, 1995 under Recorder's Instrument Number 9500070, Official Records of said County, and a portion of the parcel of land described in deed from San Juan Valley, a California Limited Partnership to Rancho San Justo Company, a California Corporation, dated December 24, 1994 and filed for record in the office of the County recorder of said County on January 5, 1995 under Recorder's Instrument Number 9500071, said portions being particularly described as follows:

**Beginning** at the most northwesterly corner of said parcel of land described under Recorder's Instrument Number 9500070; thence along the northerly boundary of said parcel

- (1) N. 89° 11' 21" E., 4930.67 feet; thence
- (2) N. 89° 10' 09" E., 370.28 feet; thence
- (3) N. 0° 48' 00" W., 45.00 feet; thence
- (4) N. 88° 51' 29" E., 170.31 feet to the most northeasterly corner of said parcel described under Recorder's Instrument Number 9500070, and the most northwesterly corner of said parcel described under Recorder's Instrument Number 9500071; thence along the boundary of said parcel described under Recorder's Instrument Number 9500071

- (5) N. 88° 51' 29" E., 380.43 feet; thence
- (6) S. 60° 05' 59" E., 825.69 feet; thence
- (7) N. 72° 48' 57" E., 283.05 feet; thence
- (8) N. 51° 16' 14" E., 410.81 feet; thence
- (9) N. 28° 42' 08" E., 150.00 feet; thence
- (10) N. 82° 10' 27" E., 447.67 feet; thence
- (11) N. 66° 31' 03" E., 774.42 feet; thence
- (12) N. 26° 42' 09" E., 1056.39 feet; thence
- (13) N. 26° 43' 00" E., 1241.88 feet; thence
- (14) N. 8° 07' 02" E., 268.03 feet; thence
- (15) N. 16° 43' 00" W., 268.03 feet; thence
- (16) N. 35° 18' 58" W., 588.33 feet; thence
- (17) N. 3° 12' 46" E., 335.25 feet; thence
- (18) N. 36° 12' 26" E., 304.18 feet; thence
- (19) N. 58° 05' E., 575.00 feet; thence
- (20) N. 23° 36' 24" E., 60.65 feet; thence
- (21) S. 31° 55' E., 130.02 feet; thence
- (22) S. 50° 35' E., 145.99 feet; thence
- (23) S. 62° 38' E., 226.38 feet; thence
- (24) S. 71° 17' 52" E., 186.71 feet; thence
- (25) S. 26° 48' 10" W., 2583.70 feet; thence
- (26) S. 63° 10' 59" E., 155.60 feet; thence
- (27) S. 36° 10' 34" E., 166.10 feet; thence
- (28) S. 4° 53' 39" E., 353.76 feet; thence
- (29) S. 18° 48' 09" E., 723.70 feet; thence
- (30) S. 50° 37' 06" E., 400.00 feet; thence

- (31) S.  $26^{\circ} 43'$  W., 307.30 feet; thence depart said boundary
- (32) S.  $26^{\circ} 03' 17''$  W., 238.65 feet; thence
- (33) N.  $63^{\circ} 17' 00''$  W., 810.50 feet; thence
- (34) Along the arc of a tangent circular curve to the left, with a radius of 350.00 feet, through a central angle of  $31^{\circ} 51' 23''$ , for an arc distance of 194.60 feet; thence tangentially
- (35) S.  $84^{\circ} 51' 37''$  W., 473.96 feet; thence
- (36) S.  $26^{\circ} 42' 09''$  W., 1306.74 feet; thence
- (37) N.  $63^{\circ} 20' 00''$  W., 1138.29 feet; thence
- (38) S.  $77^{\circ} 50' 26''$  W., 613.57 feet; thence
- (39) Along the arc of a tangent circular curve to the left, with a radius of 548.00 feet, through a central angle of  $77^{\circ} 41' 42''$ , for an arc distance of 743.11 feet; thence tangentially
- (40) S.  $0^{\circ} 08' 45''$  W., 264.59 feet; thence
- (41) Along the arc of a tangent circular curve to the left, with a radius of 562.00 feet, through a central angle of  $47^{\circ} 33' 05''$ , for an arc distance of 466.42 feet; thence
- (42) Along the arc of a tangent circular curve to the right, with a radius of 742.00 feet, through a central angle of  $6^{\circ} 31' 50''$ , for an arc distance of 84.57 feet; thence
- (43) S.  $49^{\circ} 07' 30''$  W., 492.71 feet; thence
- (44) S.  $88^{\circ} 31' 22''$  W., 322.12 feet; thence
- (45) S.  $9^{\circ} 27' 25''$  W., 500.76 feet; thence
- (46) S.  $1^{\circ} 28' 38''$  E., 391.64 feet; thence
- (47) S.  $24^{\circ} 19' 05''$  W., 189.55 feet; thence
- (48) S.  $9^{\circ} 51' 10''$  E., 121.84 feet; thence
- (49) S.  $22^{\circ} 07' 19''$  W., 212.78 feet; thence
- (50) S.  $60^{\circ} 45' 35''$  W., 296.82 feet; thence
- (51) S.  $29^{\circ} 52' 02''$  W., 377.00 feet; thence
- (52) S.  $34^{\circ} 01' 56''$  E., 269.78 feet; thence
- (53) S.  $44^{\circ} 03' 31''$  W., 558.26 feet; thence

- (54) S. 4° 09' 19" E., 1206.20 feet to a point on the westerly boundary of said parcel described under Recorder's Instrument Number 9500071; thence
- (55) N. 66° 37' 27" W., 515.29 feet; to the most southerly corner of said parcel described under Recorder's Instrument Number 9500070; thence along the boundary of said parcel
- (56) N. 64° 09' 26" W., 1001.23 feet; thence
- (57) N. 47° 58' 35" W., 864.21 feet; thence
- (58) N. 24° 02' 56" E., 1954.42 feet; thence
- (59) N. 75° 25' 00" W., 3283.49 feet; thence
- (60) N. 0° 49' 44" W., 1979.14 feet, to the **point of beginning**.

### PARCEL 3

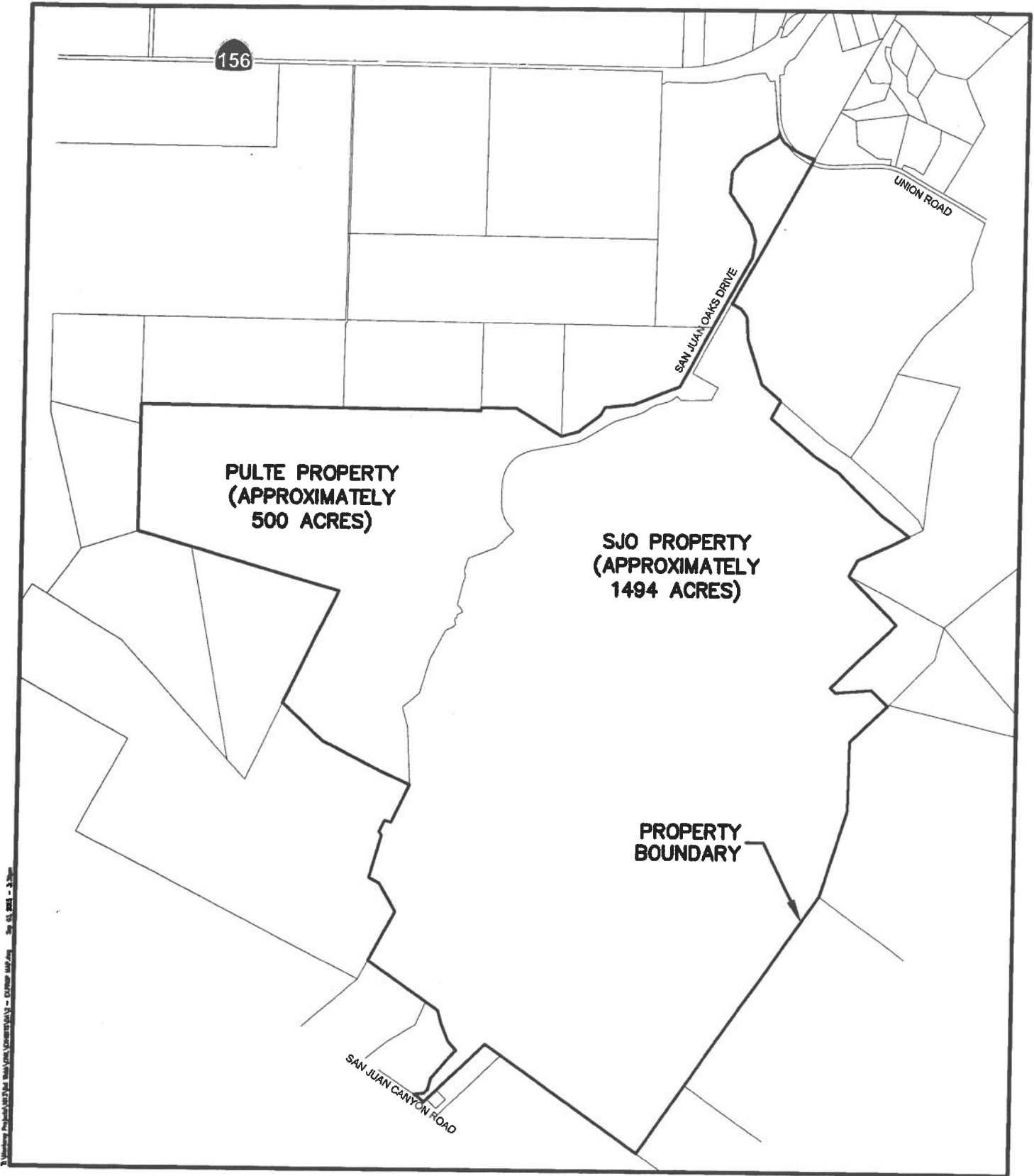
Certain real property situate in the County of San Benito, State of California, in the Rancho San Justo and Rancho Cienega del Gabilan, being a portion of the parcel of land described in deed from San Juan Valley, a California Limited Partnership to Rancho San Justo Company, a California Corporation, dated December 24, 1994 and filed for record in the office of the County recorder of said County on January 5, 1995 under Recorder's Instrument Number 9500071, and a portion of the parcel of land described in the Memorandum of Agreement between San Juan Valley, a California Limited Partnership and Rancho San Justo Company, a California Corporation, dated January 5, 1995 and filed for record in the office of the County recorder of said County on January 5, 1995, under Recorder's Instrument Number 9500074, said portions being particularly described as follows:

**Beginning** at the most southerly corner of said parcel described under Recorder's Instrument Number 9500074, said corner also being the most southerly corner of Hill Lot 8, as shown on the map filed for record in Book 1 of Maps at Page 64, Records of said County, thence along the boundary of said parcel described under Recorder's Instrument Number 9500074

- (1) N. 56° 00' 19" W., 2935.84 feet (N. 56° 04' W., 2936.5 feet in said document filed under Recorder's Instrument Number 9500074); thence
- (2) S. 44° 12' 16" W. 1316.91 feet (S. 44° 15' 30" W. 1318.0 feet in said document), to the center line of San Juan Canyon Road; thence continuing along said boundary and also along the center line of said road
- (3) N. 49° 45' 38" W., 85.70 feet (N. 48° 17' W., 85.7 feet in said document); thence
- (4) N. 53° 03' 38" W., 72.20 feet (N. 51° 35' W., 72.2 feet in said document); thence
- (5) N. 56° 57' 38" W., 33.40 feet (N. 55° 29' W., 33.44 feet in said document); thence, leaving said road center line and continuing along said boundary

- (6) N. 84° 05' 35" E., 144.55 feet (N. 85° 03' 20" E., 141.86 feet in said document); thence
- (7) N. 45° 20' 50" E., 88.39 feet (N. 45° 24' 45" E., 88.41 feet in said document); thence
- (8) N. 12° 52' 43" E., 186.94 feet (N. 12° 58' 12" E., 186.89 feet in said document); thence
- (9) N. 39° 25' 04" E., 584.29 feet (N. 39° 29' 38" E., 584.27 feet in said document); thence
- (10) N. 40° 28' 37" W., 197.06 feet (N. 40° 22' 54" W., 197.10 feet in said document); thence
- (11) N. 24° 15' 30" W., 282.59 feet (N. 24° 11' 12" W., 282.57 feet in said document); thence
- (12) N. 15° 36' 05" W., 222.97 feet (N. 15° 29' W., 222.61 feet in said document); thence
- (13) N. 56° 08' 32" W., 1347.39 feet (N. 56° 04' W., 1323.16 feet in said document); thence
- (14) N. 26° 38' 12" E., 868.12 feet (N. 26° 33' 45" E. in said document), to a point on the westerly boundary of said parcel described under Recorder's Instrument Number 9500071, at the southerly terminus of course number (47) therein; thence depart said boundary of said parcel described under Recorder's Instrument Number 9500074, and following the boundary of said parcel described under Recorder's Instrument Number 9500071
- (15) N. 31° 01' 54" W., 511.38 feet; thence
- (16) N. 63° 13' 02" W., 183.59 feet; thence
- (17) N. 14° 17' 37" E., 686.88 feet; thence
- (18) N. 34° 12' 37" W., 75.37 feet; thence
- (19) N. 23° 59' 14" E., 189.94 feet; thence
- (20) S. 77° 01' 52" E., 105.03 feet; thence
- (21) N. 23° 59' 52" E., 649.96 feet, to a point in said boundary of said parcel described under Recorder's Instrument Number 9500071, at the northerly terminus of course number (54) therein; thence depart said boundary
- (22) N. 53° 27' 19" E., 1039.05 feet
- (23) N. 18° 24' 18" E., 1683.23 feet; thence
- (24) S. 83° 05' 53" E., 779.03 feet; thence
- (25) S. 66° 05' 43" E., 785.71 feet; thence
- (26) S. 19° 32' 00" E., 304.24 feet; thence
- (27) S. 86° 48' 57" E., 523.48 feet; thence

- (28) S. 72° 45' 51" E., 430.95 feet; thence
- (29) N. 69° 30' 32" E., 839.86 feet; thence
- (30) S. 52° 24' 57" E., 292.55 feet; thence
- (31) N. 61° 35' 02" E., 354.54 feet; thence
- (32) S. 65° 19' 42" E., 1753.75 feet to a point on the easterly boundary of said parcel described under Recorder's Instrument Number 9500071, at the southerly terminus of course number (32) therein; thence following the boundary of said parcel described under Recorder's Instrument Number 9500071
- (33) S. 0° 37' 34" E., 1070.38 feet; thence
- (34) S. 15° 57' 01" W., 232.13 feet, to the most easterly corner of said parcel described under Recorder's Instrument Number 9500074; thence depart said boundary of said parcel described under Recorder's Instrument Number 9500071, and following the boundary of said parcel described under Recorder's Instrument Number 9500074
- (35) S. 15° 57' 01" W., 1195.16 feet (S. 15° 50' W., 1172.00 feet in said document); thence
- (36) S. 32° 46' 32" W., 4919.73 feet (S. 33° 01' W., 4943.4 feet in said document), to the **point of beginning.**



11. Monterey Project/Map/Title/Map/View/Coordinates/Scale - 01/20/15 - 11.20/15

**EXHIBIT 2**  
**PROPERTY (TOTAL - APPROXIMATELY 1,994 ACRES)**  
**DEL WEBB at SAN JUAN OAKS**  
**SAN BENITO COUNTY, CALIFORNIA**



SEP. 3, 2015  
Sheet 1 of 1



**NOT TO SCALE**





**EXHIBIT 4****FORM OF GRANT OF EASEMENT:****AGRICULTURAL OPEN SPACE EASEMENT GRANT DEED AND AGREEMENT**

THIS AGRICULTURAL OPEN SPACE EASEMENT GRANT DEED AGREEMENT is made by and between SAN JUAN OAKS, LLC (referred to herein as "Grantor"), and \_\_\_\_\_, a California Nonprofit Public Benefit Corporation (referred to herein as "Grantee"), for the purpose of protecting and preserving in perpetuity for the public benefit the agricultural values of the land described herein.

## RECITALS

- A. Grantor is the owner of approximately one thousand four hundred ninety-four (1,494) acres in unincorporated San Benito County, California, hereinafter described and referred to as the "**SJO Property**" and as shown in attached Exhibit "A".
- B. Grantor has plans to develop the SJO Property in accordance with the San Juan Oaks Specific Plan and the terms and conditions set forth in that certain *Development Agreement by and among the County of San Benito, Pulte Home Corporation, and San Juan Oaks, LLC*, entered into on \_\_\_\_\_, 2015 ("**Development Agreement**"). In accordance with Section 2.6(b)(ii) of the Development Agreement, Grantor desires to grant an easement over an approximately forty-one (41) acre portion of the SJO Property, as shown on attached Exhibit "B-1" and more particularly described in attached Exhibit "B-2" ("**Easement Area**") for the purposes set forth in the Development Agreement and herein.
- C. Grantor and Grantee acknowledge that pursuant to the San Juan Oaks Specific Plan and the Development Agreement (as well as the other land use entitlements and approvals granted in connection with the proposed development to occur on the SJO Property and the adjacent lands), a portion of the Easement Area is also intended to be used for passive park purposes as well as a potential future public safety facility.
- D. The Easement Area is a valuable, integral part of the agricultural resources of San Benito County. The Easement Area possesses agricultural, open space and scenic values of great importance to Grantor, Grantee, and the people of San Benito County and the people of the State of California.
- E. Grantor and Grantee desire to preserve and conserve for the public benefit the use of the Easement Area for agricultural purposes (as well as ancillary passive park and potential public safety purposes), and to restrict development on and use of the Easement Area so as to continue and preserve the use of the Easement Area for such purposes.
- F. Grantor and Grantee understand and intend that an Agricultural Open Space Easement, which has as its primary purpose the preservation of land for agricultural uses, will also serve to preserve and maintain said land in a substantially open space and scenic condition and that such an easement comes within the definition of an "open space easement" under the State of California's Open Space Easement Act of 1974 (California Government Code Section 51070 *et seq.*)

- G. Pursuant to Government Code Section 51075, any dedication of an open space easement to a non-governmental entity must be to a tax-exempt nonprofit organization qualified under the Internal Revenue Code Section 501(c)(3) and which includes the preservation of open space as a stated purpose in its articles of incorporation. Grantee possesses such qualifications.
- H. The Constitution of the State of California, Article XIII, Section 8, promotes and encourages the creation of open space land and the conservation of natural resources for scenic and agricultural values by mandating the adjustment of property tax rates in a manner consistent with all such restrictions.
- I. Grantor and Grantee intend that this Easement shall be irrevocable and shall constitute enforceable restrictions within the meaning of Article XIII, Section 8, of the California Constitution and for purposes of Section 422(d) of the California Revenue and Taxation Code.
- J. Grantor and Grantee intend by this Easement to preserve and protect in perpetuity, the agricultural and open space values of the Easement Area, to prevent the use of, or development of, the Easement Area for any purpose or in any manner that would conflict with such preservation and protection. Provided, however, that Grantor and Grantee acknowledge and agree that development of the passive park uses as well as a public safety facility in accordance with the San Juan Oaks Specific Plan, the Development Agreement and the other County land use entitlements, permits and approvals obtained in connection with the proposed development of the SJO Property and the adjacent lands shall be deemed consistent with the purposes of this Easement.

NOW, THEREFORE, in consideration of the facts recited above and the mutual covenants, terms, conditions and restrictions contained herein and pursuant to California Government Code Section 51070 *et seq.*, Grantor hereby grants and conveys to Grantee, and its successors and assigns, an Agricultural Open Space Easement in perpetuity over the Easement Area, of the nature and character and to the extent set forth below:

1. **PURPOSES:** It is the purpose of this Agricultural Open Space Easement to enable the Easement Area to remain in agricultural use for the production of food and fiber by preserving and protecting in perpetuity its agricultural values, character, use or utility and to prevent any use of the Easement Area which would significantly impair or interfere with its agricultural value, character, use or utility. It is also the purpose of this Easement to preserve and protect open space and scenic values of the Easement Area. Notwithstanding the foregoing, Grantor and Grantee acknowledge and agree that development of the passive park uses as well as a public safety facility in accordance with the San Juan Oaks Specific Plan, the Development Agreement and the other County land use entitlements, permits and approvals obtained in connection with the proposed development of the SJO Property and the adjacent lands shall be deemed consistent with the purposes of this Easement and shall not be deemed to significantly impair or interfere with the Easement Area's agricultural value, character, use or utility.

2. **AFFIRMATIVE RIGHTS AND INTERESTS CONVEYED:**

- a. to identify, preserve and protect in perpetuity the agricultural values, character, use and utility including the soil and water quality and the open space and scenic values of the Easement Area;
- b. to enter upon, inspect, observe and study the Easement Area for the purposes of (1) identifying the current uses and practices thereon and the baseline condition thereof, and (2) monitoring the uses and practices regarding the Easement Area to determine whether they are consistent with this Easement. Such entry shall be permitted upon prior notice to Grantor and shall be made in a manner that will not unreasonably interfere with Grantor's use and quiet enjoyment of the Easement Area; and,
- c. to prevent any activity on or use of the Easement Area that is inconsistent with the purpose of this Easement and to require the restoration of such areas or features of the Easement Area that may be damaged by any inconsistent activity or use. However, it is the intention of this Easement not to limit Grantor's discretion to employ its choices of farm and ranch uses and management practices so long as those used and practiced are consistent with the purpose of the Easement.

3. **CURRENT PRACTICES AND CONDITIONS:** Within ninety (90) days of the execution and recording hereof, a compilation of baseline agricultural and man-made features shall be made jointly by Grantor and Grantee. Such compilation shall include photographs and/or maps of the Easement Area depicting all improvements and major agricultural features and current contemplated uses of the Easement Area to be protected hereby. Failure to compile all the information required hereby shall not affect the enforceability or validity of other provisions of this Agricultural Open Space Easement. Grantee acknowledges by acceptance of this Agricultural Open Space Easement that Grantor's historical, present and contemplated future use of the Easement Area are compatible with the purposes of this Agricultural Open Space Easement. The parties further acknowledge and agree that in the event a controversy arises with respect to the nature and extent of Grantor's historical, present or contemplated future uses or the physical condition of the Easement Area as of the date hereof, the parties shall not be foreclosed from utilizing, in addition to the compilation, all other relevant or material documents, surveys, reports and other evidence to assist in the resolution of the controversy.

4. **USES AND PRACTICE WITHIN THE TERMS OF THIS EASEMENT:** Grantee and Grantor intend that this Easement shall confine the uses of the Easement Area to agriculture, ranching, passive park, and public safety uses, as described herein. Examples of uses and practices which are consistent with the purpose of this Easement and which are hereby expressly permitted are set forth in Exhibit "C", attached hereto and incorporated herein by this reference. Examples of uses and practices which are inconsistent with the purpose of this Easement and which are hereby expressly prohibited are set forth in Exhibit "D", attached hereto and incorporated herein by this reference. The uses and practices set forth in attached Exhibits "C" and "D" are not necessarily exhaustive recitals of consistent and inconsistent activities, respectively. They are set forth to establish specific permitted

and prohibited activities and to provide guidance in determining the consistency of other activities within the purposes of this Easement. In general, Grantor agrees that this Agricultural Open Space Easement shall confine the use of the Property to activities which are deemed reasonable and in good faith by Grantee and its successors in accordance with San Benito County's land use policies so as not to constitute an actual or threatened degradation or impairment of the agricultural and related use features of the Easement Area.

5. **ARBITRATION:** If a dispute arises between the parties concerning the consistency of any proposed use or activity with the purpose of this Easement and Grantor agrees not to proceed with the use or activity pending resolution of the dispute, either party may refer the dispute to arbitration by request made in writing upon the other. Within thirty (30) days of the receipt of such a request, the parties shall select a single arbitrator to hear the matter if the parties are unable to agree on the selection of a single arbitrator, then each party shall name one arbitrator and the two arbitrators thus selected shall elect a third arbitrator; provided, however, if either party fails to select an arbitrator, or if the two arbitrators selected by the parties fail to select a third arbitrator within fourteen (14) days after the appointment of the second arbitrator, then in each such instance a proper court, on petition of a party, shall appoint the second or third arbitrator or both, as the case may be. A judgment on the arbitration award may be entered in any court having jurisdiction thereof. The prevailing party shall be entitled, in addition to such other relief as may be granted, to a reasonable sum as and for all its costs and expenses related to such arbitration including, without limitation, the fees and expenses of the arbitrator(s) and attorney fees which shall be determined by the arbitrator(s) and any court of competent jurisdiction which may be called upon to enforce or review the award.
6. **RESERVED RIGHTS:** Grantor reserves to itself, its heirs, and successors and assigns all rights as owners of the SJO Property (including, without limitation, the Easement Area) including the right to engage in all uses of the Easement Area which are not expressly prohibited herein and are not inconsistent with the purposes of this Agricultural Open Space Easement, including the right to take such actions as it deems appropriate to protect the agricultural values of the Easement Area.
7. **ACCESS:** No right of access by the general public to any portion of the Easement Area is conveyed by this Easement except that the general public, as well as County and/or other governmental or quasi-governmental staff persons and officials shall be permitted access to those portions of the Easement Area that are developed with passive park uses and/or a public safety facility for the purposes of utilizing, operating, maintaining, improving, repairing and/or replacing any improvements constructed in relation thereto.
8. **COSTS AND TAXES:** Grantor retains all responsibilities and shall bear all costs and liabilities of any kind related to the ownership, operation, upkeep and maintenance of the Easement Area. Grantor shall pay any and all taxes, assessments, fees and charges levied by competent authority on the Easement Area or on this Easement. It is intended that this Easement constitutes an enforceable restriction within the meaning of Article XIII Section 8 of the California Constitution and that this Easement qualifies as an enforceable restriction under the provisions of California Revenue and Taxation Code Section 422(d).

9. **HOLD HARMLESS:** Grantor shall hold harmless, indemnify and defend Grantee and its directors, officers, employees, agents and contractors and the heirs, personal representatives, successors and assigns of each of them (collectively, "Indemnified Parties") from and against all liabilities, penalties, costs, losses, damages, expenses, causes of action, claims, demands or judgments including, without limitation, reasonable attorney fees arising from or in any way connected with: (1) injury to or the death of any person or physical damage to any property resulting from any act, omission, condition or other matter related to or occurring on or about the Easement Area, regardless of cause, except to the extent of the adjudicated proportionate fault of any of the Indemnified Parties; or, (2) the obligations specified in paragraph 8 above.
10. **MAINTENANCE AND OVERSIGHT FUND:** Grantor agrees that concurrent with its execution of this Agreement, Grantor shall supply Grantee with a current preliminary title report. In order to defray Grantee's future costs for maintenance and oversight of the Easement, Grantor shall pay Grantee 1) an initial lump sum payment of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_); and 2) an annual fee of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_). Grantor shall pay to Grantee the initial lump sum payment within thirty (30) days of the execution of this Agreement. Thereafter, Grantor shall pay the annual fee due on the anniversary of the recording date of this Agreement. Grantee shall be permitted to use this fee in its sole discretion and to accomplish its general use as a land trust; Grantee shall not be obligated to limit use of this fee to maintenance of the particular Easement described in this Agreement or be obligated to account in any manner to Grantor for use of this fee. The fees paid hereunder shall not be used by Grantor to offset or satisfy any other monetary obligation required to be borne by Grantor under the terms of this Agreement. The obligations herein shall be binding upon and inure to the benefit of the parties' successors and assigns.
11. **ENFORCEMENT; COSTS OF ENFORCEMENT:** Grantor agrees that should Grantor, its successors or assigns, undertake any activity in violation of this Easement, Grantee and its successors and assigns shall have the right, in addition to all other remedies allowed by law, to compel the restoration of that portion of the Easement Area affected by such activity to the condition that existed prior to the undertaking of such unauthorized activity. Any costs incurred by Grantee in enforcing the terms of this Easement against Grantor including, without limitation, costs of suit and attorney fees and any costs of restoration necessitated by Grantor's violation of the terms of this Easement shall be borne by Grantor. Grantor expressly acknowledges that its obligation to bear such costs shall not be satisfied or offset by its payment of the fee described in paragraph 10. If Grantor prevails in any action to enforce the terms of this Easement, Grantor's costs of suit including, without limitation, attorney fees shall be borne by Grantee.
12. **GRANTEE'S DISCRETION:** Enforcement of the terms of this Easement shall be at the discretion of Grantee and any forbearance by Grantee to exercise its rights under this Easement in the event of any breach of any term of this Easement by Grantor shall not be deemed or construed to be a waiver by Grantee of such term or of any subsequent breach of the same or any other term of this Easement or of any of Grantee's rights under this Easement. No delay or omission by Grantee in the exercise of any right or remedy upon any breach by Grantor shall impair such right or remedy or be construed as a waiver. Further, in the event that Grantee fails to

exercise its discretion as provided herein, the County of San Benito shall have the authority to enforce the terms and provisions of the Easement.

13. **ACTS BEYOND GRANTOR'S CONTROL:** Nothing contained in this Easement shall be construed to entitle Grantee to bring any action against Grantor for any injury to, or change in, the Easement Area resulting from causes beyond Grantor's control including, without limitations, fire, flood, storm, and earth movement or from any prudent action taken by Grantor under emergency conditions to prevent, abate or mitigate significant injury to the Easement Area resulting from such causes.
14. **ASSIGNMENT OF GRANTEE'S INTEREST:** Grantee may assign its interest in this Easement only to a "qualified organization" within the meaning of Section 170 (h)(3) of the Internal Revenue Code of 1954, as amended, or any successor provision, and which is authorized to acquire and hold conservation easements under California law, or to the County of San Benito, upon obtaining the prior written consent of Grantor and the County of San Benito. Any assignment without such consent shall be void and of no effect. Such consent shall not be unreasonably withheld by Grantor or San Benito County.
15. **EXECUTORY LIMITATIONS:** If Grantee shall cease to exist or to be a qualified organization under Section 170(h)(3) of the Internal Revenue Code of 1954 as amended, or to be authorized to acquire and hold conservation easements under California law, then Grantee's rights and obligations under this Easement shall become immediately vested in the County of San Benito.
16. **GENERAL PROVISIONS:**
  - a. **Controlling Law.** The interpretation and performance of this Easement shall be governed by the laws of the State of California.
  - b. **Liberal Construction.** Any general rule of construction to the contrary notwithstanding, this Easement shall be liberally construed in favor of the grant to effect the purposes of this Easement and the policy and purpose of the California Open Space Easement Act of 1974, as amended. If any provision in this instrument is found to be ambiguous, an interpretation consistent with the purpose of this Easement which would render the provision valid shall be favored over any interpretation which would render it invalid.
  - c. **Severability.** If any provision of this Easement or the application thereof to any person or circumstance is found to be invalid, the remainder of the provisions of this Easement or the application of such provision to persons or circumstances other than those as to which it is found to be invalid, as the case may be, shall not be affected thereby.
  - d. **Entire Agreement.** This instrument sets forth the entire agreement of the parties with respect to the Easement and supersedes all prior discussions, negotiations, understandings or agreements relating to the Easement, all of which are merged herein.

- e. No Forfeiture. Nothing contained herein will result in a forfeiture or reversion of Grantor's title in any respect.
- f. Joint Obligation. The obligation imposed by this Easement upon Grantor shall be joint and several.
- g. Successors. The Grantee's interest in the Easement Area, as well as all of the covenants, terms, conditions, exceptions, obligations, reservations, and restrictions of this Easement, shall be binding upon and inure to the benefit of the parties hereto and their respective personal representatives, heirs, successors and assigns, whether voluntary or involuntary, and shall continue as covenants and/or servitudes running in perpetuity with the Easement Area.
- h. Termination of Rights and Obligations. A party's rights and obligations under this Easement terminate upon transfer of the party's interest in the Easement or the Easement Area, except that liability for acts or omissions occurring prior to transfer shall survive transfer.
- i. Future Conveyance. All future conveyances of the Easement Area shall be subject to the Grantee's interest in the Easement Area, and shall be subject to all covenants, terms, conditions, exceptions, obligations, reservations, and restrictions of this Easement, and this Easement shall be referenced in any subsequent deed or other legal instrument by means of which any interest in the Easement Area, including, without limitation, a leasehold interest, is conveyed or otherwise transferred.
- j. Third Party Beneficiary. The parties agree that the County of San Benito shall be treated as a third party beneficiary under this Easement for the purpose of enforcing the obligations set forth herein.

SAN JUAN OAKS, LLC

DATED: \_\_\_\_\_

BY: \_\_\_\_\_

SAN BENITO AGRICULTURAL LAND TRUST

DATED: \_\_\_\_\_

BY: \_\_\_\_\_

**Exhibit A**



**Exhibit B-1**

**Exhibit B-2**

### Exhibit C

The following uses and practices, though not necessarily an exhaustive recital of consistent uses and practices, are expressly permitted under this Easement, and they are not to be precluded, prevented, or limited by this Easement:

1. To engage in any and all agricultural uses of the Easement Area in accordance with sound, generally accepted agricultural practices. For the purposes of this Easement, "agriculture uses" shall be defined as: breeding, raising, pasturing and grazing livestock of every nature and description for the production of food and fiber; breeding and raising bees, fish, poultry and other fowl; planting, raising, harvesting and producing agricultural, aquacultural, horticultural and forestry crops and products of every nature and description; and the processing, storage and sale (including direct retail sale to the public) within areas of not more than 5,000 square feet, upon the County's issuance of a conditional use permit for a permanent stand for the sale of agricultural products, pursuant to San Benito County Code section 25.07.005(K), as may be amended) of crops and products harvested and produced on the Easement Area, so long as the above-referenced uses are otherwise consistent with the Specific Plan and other Project Approvals (as may be amended from time to time).
2. To allow passive park uses as well as a public safety facility in accordance with the San Juan Oaks Specific Plan and the other Project Approvals.
3. To maintain and repair existing structures, fences, corrals, roads, ditches, and other improvements on the Easement Area. Additional structures, fencing, and any paved roads, subject to the County's review and approval under applicable provisions of the County Code, the Development Agreement, the San Juan Oaks Specific Plan and other relevant County land use entitlements, approvals and permits, which are reasonably necessary to the agricultural, passive park, and public safety uses of the Easement Area shall be permitted. In the event of destruction, deterioration or obsolescence of any improvements, structures, fences, corrals, roads or ditches whether existing at the date hereof or constructed subsequently pursuant to the provisions of this paragraph, Grantor may replace the same with improvements or structures of similar size, function, capacity and location;
4. To develop and maintain such water resources on the Easement Area as are necessary or convenient for ranching, agricultural, irrigation, passive park and public safety uses in a manner consistent with the purpose of this Easement, including, without limitation: (i) importing water from and exporting water to other lands for irrigation purposes or other agricultural uses, and (ii) development and maintenance of ponds or other methods of water containment for irrigation purposes or other agricultural uses upon the Easement Area;
5. To use agrichemicals including, without limitation, fertilizers and biocides in those amounts and with that frequency of application necessary to accomplish reasonable grazing and agricultural purposes as long as the amounts and frequency of application conform to the requirements set forth in the San Juan Oaks Specific Plan and other Project Approvals (as well as the Project's Mitigation Monitoring and Reporting Plan (MMRP));

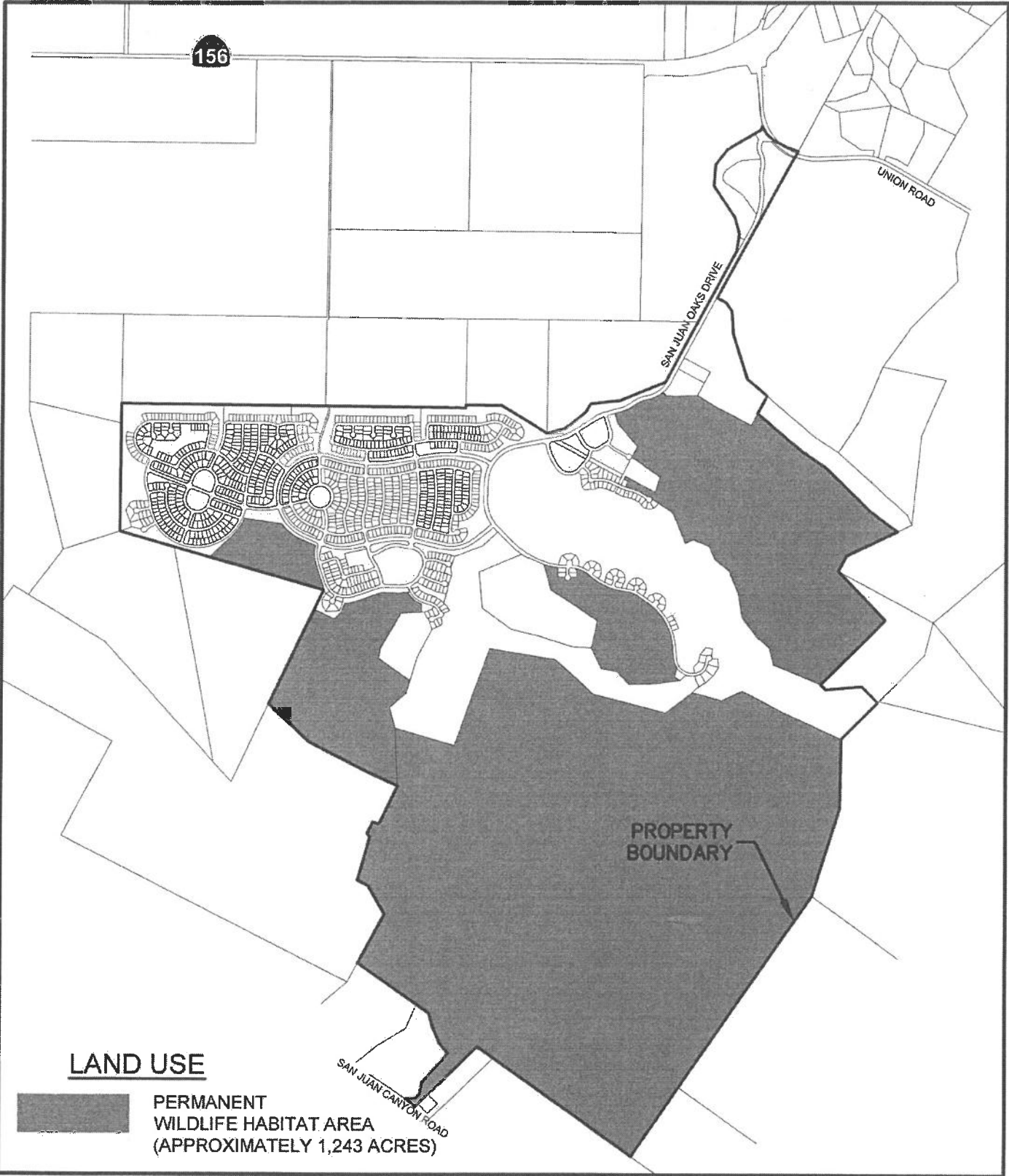
6. To control predator and problem animals by the use of selective control techniques in accordance with applicable laws and regulations;  
and
7. To utilize the Easement Area for passive park, recreational or educational purposes including, without limitation, hiking, horseback riding, hunting and fishing which require no surface alteration or other development of the land, and provided further that any such activities do not significantly impair the agricultural uses of the Easement Area.
8. To lease all or a portion of the Easement Area for agricultural use, except for those areas used or intended for use as passive parks and/or a public safety facility.

**Exhibit D**

The following uses and practices, though not necessarily an exhaustive recital of inconsistent uses and practices, are inconsistent with the purposes of this Easement and expressly prohibited upon or within the Property:

1. The impairment of the protected values except as otherwise provided herein;
2. The establishment of commercial or industrial uses or the construction, placing or erection of any signs or billboards provided that neither ranching, agriculture nor the production or processing of food and fiber products as contemplated by the provisions of Exhibit "C" shall be considered commercial or industrial uses;
3. The use of motorized vehicles except by Grantor or others under Grantor's control for agricultural, ranching, passive park, or attendant uses of the Easement, or except by the public agency that develops and operates any future public safety site. Any use of motorized vehicles off of roadways is prohibited except when necessary for agricultural, ranching, passive park, and/or public safety purposes;
4. The commercial harvesting of timber, provided that Grantor shall have the right to: (i) cut or collect firewood for the heating of ranching facilities on the Easement Area, (ii) cut trees as necessary or desirable for agricultural purposes for the construction of fences and for the repair and construction of such building or other improvement on the Easement Area as are allowed hereunder, and (iii) develop and implement a long-range plan for the growing and harvesting of plants and trees in a manner which is consistent with the purpose of this Easement upon the express written consent of Grantee which shall not be unreasonably withheld; and,
5. The dumping or other disposal of non-combustible refuse on the Easement Area.



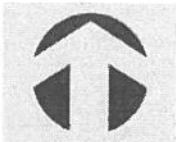


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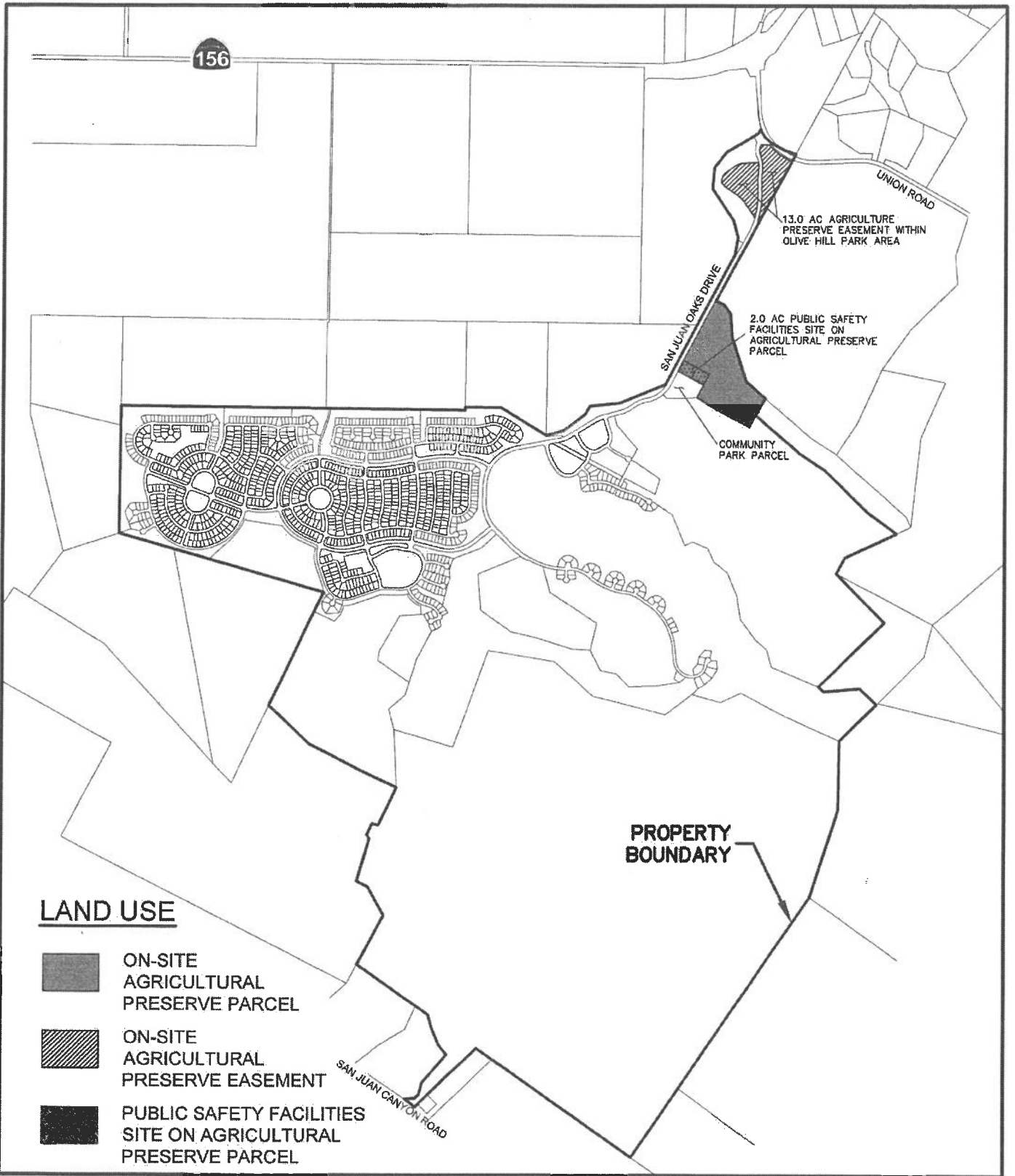
**EXHIBIT 6**  
**PERMANENT WILDLIFE HABITAT AREA**  
**DEL WEBB at SAN JUAN OAKS**  
**SAN BENITO COUNTY, CALIFORNIA**



SEP. 3, 2015  
Sheet 1 of 1



**NOT TO SCALE**

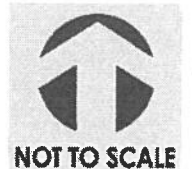


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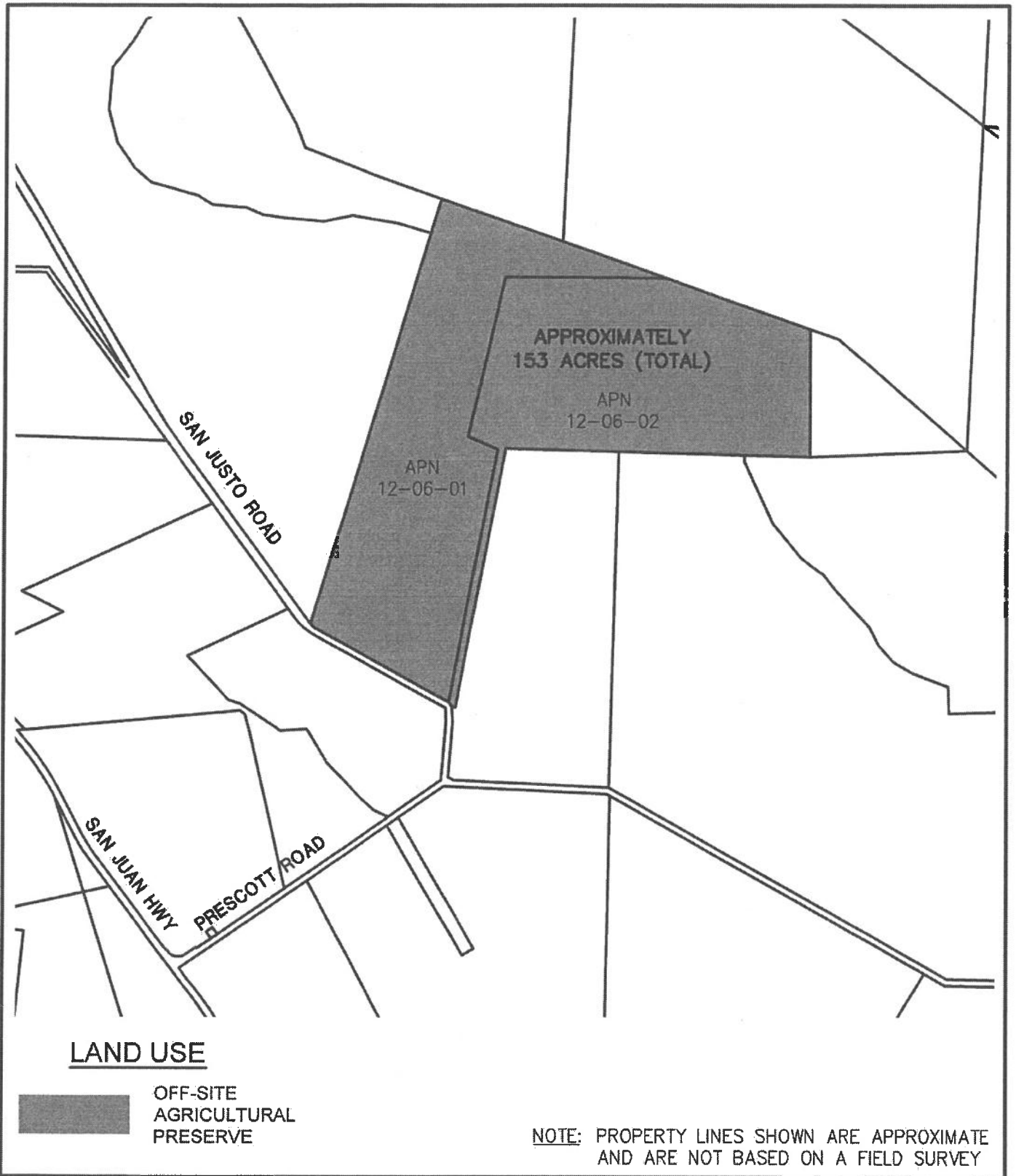
**EXHIBIT 7**  
**ON-SITE AGRICULTURAL PRESERVE**  
**DEL WEBB at SAN JUAN OAKS**  
**SAN BENITO COUNTY, CALIFORNIA**



SEP. 3, 2015  
Sheet 1 of 1







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**EXHIBIT 8**  
**OFF-SITE AGRICULTURAL PRESERVE**  
**DEL WEBB at SAN JUAN OAKS**  
**SAN BENITO COUNTY, CALIFORNIA**



SEP. 3, 2015  
Sheet 1 of 1



1" = 1000'

Exhibit 9

Development Impact Fees

San Juan Oaks Development Agreement

|  |   |
|--|---|
| Road Heavy Equipment Impact Fee  | \$0.70 per square foot of Residential Living Space                  |
| Fire Protection Impact Fee   | \$0.25 per square foot (Residential and Commercial)                 |
| General Capital Impact Fee   | \$0.38 per square foot (Residential and Commercial)                 |
| Jail and Juvenile Hall Impact Fee  | \$0.47 per square foot of Residential Covered Space                 |
| Habitat Conservation Mitigation Fee <sup>1</sup>   | \$0.15 per square foot of Living space (Residential and Commercial) |
| Habitat Conservation Mitigation Fee <sup>1</sup>   | \$150.00 for lots under 1 acre                                      |
| Habitat Conservation Mitigation Fee <sup>1</sup>   | \$300.00 for lots from 1 acre to 5 acres                            |
| Habitat Conservation Mitigation Fee <sup>1</sup>   | \$600.00 for lots over 5 acres                                      |
| Park and Recreation Impact Fee <sup>2</sup>  | \$1.80 per square foot Residential living space                     |
| Quimby Act Park Impact Fee <sup>2</sup>  | 5 acres of parkland per 1,000 residents                             |
| CoG Traffic Impact Fee   | \$5,130 per Residential unit  |
| CoG Traffic Impact Fee   | \$3.33 per square foot for commercial uses                          |
| CoG Traffic Impact Fee   | \$8.08 per square foot for office uses                              |
| <p>Note: Fees are condensed for applicability. Refer to obligations set forth in the Development Agreement for additional details of payment requirements.</p> |   |

<sup>1</sup> Pursuant to Section 2.9(a), Owners' provision of the Permanent Wildlife Habitat Area in accordance with the requirements of the Development Agreement, to be protected in perpetuity, along with the provision of the Endowment, shall satisfy the purpose of the County's Habitat Conservation Mitigation Fee (Ordinance No. 541; Chapter 19.19 of the San Benito County Code) and shall be in lieu of payment otherwise due by Owners thereunder.

<sup>2</sup> Pursuant to Section 2.4(b), Owners' provision of the Community Parks in accordance with the terms and conditions of the Development Agreement shall be in lieu of payment otherwise due by Owners thereunder.  
SABE\51484\978359.1

**EXHIBIT 10**

**FORM OF CONSENT TO ASSIGNMENT AND ASSUMPTION**

The COUNTY OF SAN BENITO, a political subdivision of the State of California (the "**County**"), hereby consents to the Assignment and Assumption Agreement by and between \_\_\_\_\_, a \_\_\_\_\_, as Assignor, and \_\_\_\_\_, a \_\_\_\_\_, as Assignee (the "**Assignment**"), to which this Consent to Assignment and Assumption is attached as **Exhibit A**, and releases Assignor from its obligations under the Development Agreement that are expressly assumed by Assignor as set forth in said Assignment and Assumption Agreement relating to the period from and after the effective date of the Assignment, so long as the parties to said Assignment and Assumption Agreement have expressly and with specificity set forth therein each and every right and obligation that comprise the Assigned Interests.

COUNTY:

COUNTY OF SAN BENITO, a political  
subdivision of the State of California

\_\_\_\_\_  
Director, San Benito County Planning &  
Building Department

Date:

APPROVED AS TO FORM:  
San Benito County Counsel's Office

\_\_\_\_\_  
County Counsel

Date:



**EXHIBIT 11**

**RECORDING REQUESTED BY  
AND WHEN RECORDED MAIL TO:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attention: \_\_\_\_\_

---

**FORM OF ASSIGNMENT AND ASSUMPTION AGREEMENT  
(Development Agreement By and Among the County of San Benito,  
Pulte Home Corporation and San Juan Oaks, LLC)**

This Assignment and Assumption Agreement (Development Agreement By and Among the County of San Benito, Pulte Home Corporation and San Juan Oaks, LLC) ("**Assumption and Assumption Agreement**") is made effective as of \_\_\_\_\_, \_\_\_\_\_, by and between \_\_\_\_\_, a \_\_\_\_\_ ("**Assignor**"), and \_\_\_\_\_, a \_\_\_\_\_ ("**Assignee**").

A. Pulte Home Corporation, San Juan Oaks, LLC and the County of San Benito ("**County**") entered into that certain Development Agreement, dated as of \_\_\_\_\_, 2015 and recorded as Instrument No. \_\_\_\_\_ on \_\_\_\_\_ ("**Development Agreement**"), relating to certain real property in located in unincorporated San Benito County, State of California ("**Property**"). The Property is more particularly described in the Development Agreement. All capitalized terms used herein shall have the definitions given to them in the Development Agreement, unless otherwise expressly stated herein.

B. The Development Agreement provides for development of the Project (as that term is defined therein) on the Property, as more particularly described in the Development Agreement.

C. Assignor desires to assign to Assignee all of Assignor's rights and obligations as an "Owner" under the Development Agreement with respect to the Property in whole or in part (collectively, "**Assigned Interests**") and Assignee desires to assume from Assignor the Assigned Interests.

NOW, THEREFORE, in consideration of the promises and the mutual agreements and covenants set forth herein and intending to be legally bound hereby, Assignor and Assignee do hereby agree as follows:

1. Assignment. Assignor hereby assigns to Assignee all of Assignor's right, title and interest in and to the Assigned Interests.

2. Assumption. Assignee hereby assumes from Assignor all of Assignor's right, title and interest in and to the Assigned Interests relating to the period from and after the effective date of this Assignment and Assumption Agreement, and agrees to perform all of Assignor's obligations as "Owner" under the Development Agreement with respect to the Assigned

Interests relating to the period from and after the effective date of this Assignment and Assumption Agreement.

3. Consent; Release. The County has consented to such assignment and assumption pursuant to the Consent set forth in attached Exhibit A.

4. Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation shall no affect the validity or enforceability of the offending term or provision in any other situation.

5. Successors and Assigns. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their permitted successors and assigns.

6. Applicable Law. This Agreement shall be governed by, and constructed in accordance with, the laws of the State of California, applicable to contracts executed in and to be performed entirely within that state, and without regard to the conflict of laws provisions thereof.

7. Counterparts. This Agreement may be executed in one (1) or more counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, Assignor and Assignee have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

ASSIGNOR:

\_\_\_\_\_,  
a \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ASSIGNEE:

\_\_\_\_\_,  
a \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF CALIFORNIA )  
 ) ss.  
COUNTY OF \_\_\_\_\_ )

On \_\_\_\_\_, \_\_\_\_\_, before me, \_\_\_\_\_, Notary Public, personally appeared \_\_\_\_\_ who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature \_\_\_\_\_ (Seal)

STATE OF CALIFORNIA )  
 ) ss.  
COUNTY OF \_\_\_\_\_ )

On \_\_\_\_\_, \_\_\_\_\_, before me, \_\_\_\_\_, Notary Public, personally appeared \_\_\_\_\_ who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature \_\_\_\_\_ (Seal)

**EXHIBIT A**

**CONSENT TO ASSIGNMENT AND ASSUMPTION**

The COUNTY OF SAN BENITO, a political subdivision of the State of California (the "**County**"), hereby consents to the Assignment and Assumption Agreement by and between \_\_\_\_\_, a \_\_\_\_\_, as Assignor, and \_\_\_\_\_, a \_\_\_\_\_, as Assignee (the "**Assignment**"), to which this Consent to Assignment and Assumption is attached as Exhibit A, and releases Assignor from its obligations under the Development Agreement that are expressly assumed by Assignor as set forth in said Assignment and Assumption Agreement relating to the period from and after the effective date of the Assignment, so long as the parties to said Assignment and Assumption Agreement have expressly and with specificity set forth therein each and every right and obligation that comprise the Assigned Interests.

COUNTY:

COUNTY OF SAN BENITO, a political  
subdivision of the State of California

\_\_\_\_\_  
Director, San Benito County Planning &  
Building Department

Date:

APPROVED AS TO FORM:  
San Benito County Counsel's Office

\_\_\_\_\_  
County Counsel

Date:



STATE OF CALIFORNIA            )  
  ) ss.  
COUNTY OF \_\_\_\_\_ )

On \_\_\_\_\_, \_\_\_\_\_, before me, \_\_\_\_\_, Notary Public, personally appeared \_\_\_\_\_ who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature \_\_\_\_\_ (Seal)

**EXHIBIT 12**

**FORM OF ESTOPPEL CERTIFICATE**

**Date:** \_\_\_\_\_

**Parties:** \_\_\_\_\_

This document is intended to confirm the terms and conditions of the DEVELOPMENT AGREEMENT BY AND AMONG THE COUNTY OF SAN BENITO, PULTE HOME CORPORATION AND SAN JUAN OAKS, LLC

1. On \_\_\_\_\_, 2015, the County of San Benito approved that certain DEVELOPMENT AGREEMENT BY AND AMONG THE COUNTY OF SAN BENITO, PULTE HOME CORPORATION AND SAN JUAN OAKS, LLC

2. This Estoppel Certificate certifies that, as of the Date of Certificate set forth above:

- \_\_\_ The Development Agreement remains in full force and effect and constitutes a binding obligation of the parties.
- \_\_\_ The Development Agreement has not been amended either orally or in writing.
- \_\_\_ The Development Agreement has been amended in the following aspects: [Specify the nature of said amendment(s).]
- \_\_\_ There are no existing defaults in the performance of \_\_\_\_\_ [specify party requesting Estoppel Certificate] obligations under the Development Agreement to the actual knowledge of the individual executing this Estoppel Certificate.

This Estoppel Certificate may be relied upon by an Assignee or Mortgagee (as those terms are defined in the Development Agreement).

Executed this \_\_\_\_\_ day of \_\_\_\_\_, in \_\_\_\_\_, California.

I declare that the foregoing is true and correct.

COUNTY OF SAN BENITO

By: \_\_\_\_\_  
Planning Director