

AMERICAN STATES WATER CO
Form 10-Q
May 05, 2015
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended March 31, 2015

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

Commission file number 001-14431
American States Water Company
(Exact Name of Registrant as Specified in Its Charter)

California 95-4676679
(State or Other Jurisdiction of Incorporation or (IRS Employer Identification No.)
Organization)
630 E. Foothill Blvd, San Dimas, CA 91773-1212
(Address of Principal Executive Offices) (Zip Code)
(909) 394-3600
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Commission file number 001-12008
Golden State Water Company
(Exact Name of Registrant as Specified in Its Charter)
California 95-1243678
(State or Other Jurisdiction of Incorporation or (IRS Employer Identification No.)
Organization)
630 E. Foothill Blvd, San Dimas, CA 91773-1212
(Address of Principal Executive Offices) (Zip Code)
(909) 394-3600
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

American States Water Company Yes x No ..
Golden State Water Company Yes x No ..

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
and
GOLDEN STATE WATER COMPANY
FORM 10-Q

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PART I

Item 1. Financial Statements

General

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

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

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

Filing Format

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

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: AWR and GSWC. For more information, please see Note 1 of the Notes to Consolidated Financial Statements and the heading entitled General in Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations. References in this report to "Registrant" are to AWR and GSWC collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than GSWC.

Forward-Looking Information

This Form 10-Q 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" or 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 those 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 include, but are not limited to:

The outcome of pending and future regulatory, legislative or other proceedings, investigations or audits, including decisions in our general rate cases and the results of independent audits of our construction contracting procurement practices or other independent audits of our costs

Changes in the policies and procedures of the California Public Utilities Commission ("CPUC")

• Timeliness of CPUC action on rates

Availability of water supplies, which may be adversely affected by the California drought, changes in weather patterns in the West, contamination and court decisions or other governmental actions restricting the use of water from the Colorado River, the California State Water Project, and/or pumping of groundwater

• Our ability to efficiently manage GSWC capital expenditures and operating and maintenance expenses within CPUC authorized levels and timely recovery of our costs through rates

• The impact of increasing opposition to GSWC rate increases on our ability to recover our costs through rates

• The impact of condemnation actions on the size of our customer base

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- Our ability to forecast the costs of maintaining GSWC's aging water and electric infrastructure

Our ability to recover increases in permitting costs and in costs associated with negotiating and complying with the terms of our franchise agreements with cities and counties and other demands made upon us by the cities and counties in which GSWC operates

• Changes in accounting valuations and estimates, including changes resulting from our assessment of anticipated recovery of regulatory assets, liabilities and revenues subject to refund or regulatory disallowances

• Changes in environmental laws and water and wastewater quality requirements and increases in costs associated with complying with these laws and requirements

• Our ability to obtain adequate, reliable and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our water and wastewater operations

Our ability to recover the costs associated with the contamination of GSWC's groundwater supplies from parties responsible for the contamination or through the ratemaking process, and the time and expense incurred by us in obtaining recovery of such costs

• Adequacy of our electric division's power supplies and the extent to which we can manage and respond to the volatility of electric and natural gas prices

• Our electric operation's ability to comply with the CPUC's renewable energy procurement requirements

Changes in GSWC long-term customer demand due to changes in customer usage patterns as a result of conservation efforts, regulatory changes affecting demand such as mandatory restrictions on water use, new landscaping or irrigation requirements, recycling of water by the customer or purchase of recycled water supplied by other parties, unanticipated population growth or decline, changes in climate conditions, general economic and financial market conditions and cost increases

• Changes in accounting treatment for regulated utilities

• Changes in estimates used in ASUS's revenue recognition under the percentage of completion method of accounting for construction activities at our contracted services business

• Termination, in whole or in part, of one or more of our Military Utility Privatization Subsidiaries' contracts to provide water and/or wastewater services at military bases for the convenience of the U.S. government or for default

• Termination of contracts and suspension or debarment for a period of time from contracting with the government due to violations of federal law or regulations in connection with military utility privatization activities

• Failure of the U.S. government to make timely payments to ASUS for water and/or wastewater services at military bases as a result of fiscal uncertainties over the funding of the U.S. government

• Delays in obtaining redetermination of prices or equitable adjustments to our prices on one or more of our contracts to provide water and/or wastewater services at military bases

• Disallowance of costs on any of our contracts to provide water and/or wastewater services at military bases as a result of audits, cost reviews or investigations by contracting agencies

• Inaccurate assumptions used in preparing bids in our contracted services business

• Failure of the wastewater systems that we operate on military bases resulting in untreated wastewater or contaminants spilling into nearby properties, streams or rivers

• Failure to comply with the terms of our military privatization contracts

• Failure of any of our subcontractors to perform services for us in accordance with the terms of our military privatization contracts

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Issues with the implementation, maintenance and/or upgrading of our information technology systems

General economic conditions which may impact our ability to recover infrastructure investments and operating costs from customers

Explosions, fires, accidents, mechanical breakdowns, the disruption of information technology and telecommunication systems, human error and similar events that may occur while operating and maintaining water and electric systems in California or operating and maintaining water and wastewater systems on military bases under varying geographic conditions

The impact of storms, earthquakes, floods, mudslides, drought, wildfires, disease and similar natural disasters, or acts of terrorism or vandalism, that affect customer demand or that damage or disrupt facilities, operations or information technology systems owned by us, our customers or third parties on whom we rely

Potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption in connection with a cyber-attack or other cyber incident

Restrictive covenants in our debt instruments or changes to our credit ratings on current or future debt that may increase our financing costs or affect our ability to borrow or make payments on our debt

Our ability to access capital markets and other sources of credit in a timely manner on acceptable terms

Please consider our forward-looking statements in light of these risks (which are more fully disclosed in our 2014 Annual Report on Form 10-K) as you read this Form 10-Q. We qualify all of our forward-looking statements by these cautionary statements.

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AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

ASSETS

(Unaudited)

(in thousands)	March 31, 2015	December 31, 2014
Property, Plant and Equipment		
Regulated utility plant, at cost	\$1,506,244	\$1,492,880
Non-utility property, at cost	10,903	10,879
Total	1,517,147	1,503,759
Less - Accumulated depreciation	(509,584) (500,239
Net property, plant and equipment	1,007,563	1,003,520
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	17,505	17,536
Total other property and investments	18,621	18,652
Current Assets		
Cash and cash equivalents	74,675	75,988
Accounts receivable — customers (less allowance for doubtful accounts of \$717 in 2015 and \$803 in 2014)	16,773	18,814
Unbilled receivable	16,925	21,422
Receivable from the U.S. government	7,944	6,709
Other accounts receivable (less allowance for doubtful accounts of \$112 in 2015 and \$89 in 2014)	3,307	4,843
Income taxes receivable	14,565	20,993
Materials and supplies, at average cost	3,904	3,588
Regulatory assets — current	12,918	12,379
Prepayments and other current assets	5,853	2,745
Costs and estimated earnings in excess of billings on uncompleted contracts	25,706	34,535
Deferred income taxes — current	6,827	7,435
Total current assets	189,397	209,451
Regulatory and Other Assets		
Regulatory assets	123,265	118,829
Costs and estimated earnings in excess of billings on uncompleted contracts	12,141	12,228
Unbilled receivable	4,374	3,513
Other	12,059	12,105
Total regulatory and other assets	151,839	146,675
Total Assets	\$1,367,420	\$1,378,298

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

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AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

(in thousands)	March 31, 2015	December 31, 2014
Capitalization		
Common shares, no par value	\$251,343	\$253,199
Earnings reinvested in the business	246,022	253,602
Total common shareholders' equity	497,365	506,801
Long-term debt	325,722	325,798
Total capitalization	823,087	832,599
Current Liabilities		
Long-term debt — current	299	292
Accounts payable	36,952	41,855
Income taxes payable	799	638
Accrued other taxes	4,675	8,602
Accrued employee expenses	12,480	10,519
Accrued interest	6,292	3,549
Unrealized loss on purchased power contracts	6,176	3,339
Billings in excess of costs and estimated earnings on uncompleted contracts	11,350	11,736
Other	17,711	18,760
Total current liabilities	96,734	99,290
Other Credits		
Advances for construction	68,298	68,328
Contributions in aid of construction - net	116,190	116,629
Deferred income taxes	191,358	191,209
Unamortized investment tax credits	1,677	1,699
Accrued pension and other postretirement benefits	63,339	61,773
Other	6,737	6,771
Total other credits	447,599	446,409
Commitments and Contingencies (Note 8)		
Total Capitalization and Liabilities	\$1,367,420	\$1,378,298

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

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED MARCH 31, 2015 AND 2014
(Unaudited)

(in thousands, except per share amounts)	Three Months Ended March 31,	
	2015	2014
Operating Revenues		
Water	\$71,504	\$70,757
Electric	10,969	10,456
Contracted services	18,460	20,732
Total operating revenues	100,933	101,945
Operating Expenses		
Water purchased	12,291	11,224
Power purchased for pumping	2,017	1,964
Groundwater production assessment	3,389	3,540
Power purchased for resale	2,499	2,699
Supply cost balancing accounts	1,813	818
Other operation	6,160	6,947
Administrative and general	19,527	20,184
Depreciation and amortization	10,548	10,530
Maintenance	3,477	3,489
Property and other taxes	4,276	4,325
ASUS construction	10,046	13,457
Total operating expenses	76,043	79,177
Operating Income	24,890	22,768
Other Income and Expenses		
Interest expense	(5,228) (5,627
Interest income	112	112
Other, net	273	125
Total other income and expenses	(4,843) (5,390