

AMERICAN STATES WATER CO

Form 10-Q

May 04, 2016

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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, 2016

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

(State or Other Jurisdiction of Incorporation or Organization)

630 E. Foothill Blvd, San Dimas, CA

(Address of Principal Executive Offices)

(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

(State or Other Jurisdiction of Incorporation or Organization)

630 E. Foothill Blvd, San Dimas, CA

(Address of Principal Executive Offices)

(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 No

Golden State Water Company Yes No

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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).

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American States Water Company Yes x No "

Golden State Water Company Yes x No "

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 x Accelerated filer " Non-accelerated filer " Smaller reporting company "

Golden State Water Company

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

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

American States Water Company Yes " Nox

Golden State Water Company Yes " Nox

As of May 1, 2016, the number of Common Shares outstanding, of American States Water Company was 36,554,067 shares. As of May 1, 2016, all of the 146 outstanding Common Shares of Golden State Water Company were owned by American States Water Company.

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

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

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 other than with respect to itself.

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" 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, include, but are not limited to:

• the outcomes of pending and future regulatory, legislative or other proceedings, investigations or audits, including decisions in GSWC's general rate cases and the results of independent audits of GSWC's 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 recover our costs through rates;

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the impact of opposition to GSWC rate increases on our ability to recover our costs through rates, including costs associated with construction of pipelines to connect to alternative sources of water, new wells to replace wells 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;

the impact of opposition by GSWC customers to rate increases associated with the implementation of tiered rate structures and restrictions on water use mandated in California as a result of the California drought;

the impact of condemnation actions on future revenues and other aspects of our business if we do not receive adequate compensation for the assets acquired, or recovery of all charges associated with the condemnation of these assets, and the impact on future revenues if we are no longer entitled to any portion of the revenues generated from these assets;

liabilities associated with the inherent risks of damage to private property and injuries to employees and the general public if they should come into contact with electrical current or equipment, including through downed power lines or equipment malfunctions, or we fail to maintain safe construction and maintenance work sites;

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 GSWC's regulatory assets, liabilities and revenues subject to refund or regulatory disallowances and the timing of such recovery, and the amounts set aside for uncollectible accounts receivable, inventory obsolescence, pensions and post-retirement liabilities, taxes and uninsured losses and claims, including general liability and workers' compensation claims;

changes in environmental laws, health and safety laws and water and wastewater quality requirements and increases in costs associated with complying with these laws and requirements, including costs associated with 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 of water when necessary;

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 attract, retain, train, motivate, develop and transition key employees;

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 electricity 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 customers 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, which may impact our long-term operating revenues if we are unable to secure rate increases, if growth in the residential customer base does not occur to the extent necessary to offset the decline in per-customer residential usage or GSWC's customer base declines as a result of condemnation actions or the use of recycled or reclaimed water from other third-party sources;

• changes in accounting treatment for regulated utilities;

• effects of changes in or interpretations of tax laws, rates or policies;

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changes in estimates used in ASUS's revenue recognition under the percentage-of-completion method of accounting for construction activities;

termination, in whole or in part, of one or more of our military utility privatization contracts to provide water and/or wastewater services at military bases for the convenience of the U.S. government or for default;

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;

delays by the U.S. government in making 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 or otherwise;

delays in obtaining redetermination of prices or economic price 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 or negotiating periodic price adjustments;

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 or manufacturers to perform services for us in accordance with the terms of our military privatization contracts;

issues with the implementation, maintenance or upgrading of 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, 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/or wastewater systems on military bases under varying geographic conditions;

the impact of storms, earthquakes, floods, mudslides, droughts, 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;

increases in the cost of obtaining insurance or in uninsured losses that may not be recovered in rates, including increase due to difficulties in obtaining insurance for certain risks, such as wildfires and earthquakes in California;

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; and

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 2015 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, 2016	December 31, 2015
Property, Plant and Equipment		
Regulated utility plant, at cost	\$ 1,607,283	\$ 1,578,865
Non-utility property, at cost	12,127	11,627
Total	1,619,410	1,590,492
Less - Accumulated depreciation	(540,092)	(529,698)
Net property, plant and equipment	1,079,318	1,060,794
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	18,687	18,710
Total other property and investments	19,803	19,826
Current Assets		
Cash and cash equivalents	8,457	4,364
Accounts receivable — customers (less allowance for doubtful accounts of \$730 in 2016 and \$790 in 2015)	16,183	18,940
Unbilled receivable	18,233	19,490
Receivable from the U.S. government	4,076	5,861
Other accounts receivable (less allowance for doubtful accounts of \$59 in 2016 and \$154 in 2015)	1,448	2,302
Income taxes receivable	7,571	10,793
Materials and supplies, at average cost	5,180	5,415
Regulatory assets — current	33,555	30,134
Prepayments and other current assets	5,453	3,229
Costs and estimated earnings in excess of billings on uncompleted contracts	30,969	32,169
Total current assets	131,125	132,697
Regulatory and Other Assets		
Regulatory assets	110,643	102,562
Costs and estimated earnings in excess of billings on uncompleted contracts	21,253	21,330
Other	6,749	6,750
Total regulatory and other assets	138,645	130,642
Total Assets	\$ 1,368,891	\$ 1,343,959

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, 2016	December 31, 2015
Capitalization		
Common shares, no par value	\$244,568	\$ 245,022
Earnings reinvested in the business	222,833	220,923
Total common shareholders' equity	467,401	465,945
Long-term debt	320,910	320,900
Total capitalization	788,311	786,845
Current Liabilities		
Notes payable to banks	43,000	28,000
Long-term debt — current	318	312
Accounts payable	47,856	50,585
Income taxes payable	454	68
Accrued other taxes	5,882	8,142
Accrued employee expenses	11,966	11,748
Accrued interest	6,623	3,626
Unrealized loss on purchased power contracts	7,245	7,053
Billings in excess of costs and estimated earnings on uncompleted contracts	5,540	3,764
Other	10,167	10,209
Total current liabilities	139,051	123,507
Other Credits		
Advances for construction	68,802	68,041
Contributions in aid of construction - net	117,386	117,810
Deferred income taxes	195,511	192,852
Unamortized investment tax credits	1,591	1,612
Accrued pension and other postretirement benefits	47,653	42,666
Other	10,586	10,626
Total other credits	441,529	433,607
Commitments and Contingencies (Note 8)		
Total Capitalization and Liabilities	\$ 1,368,891	\$ 1,343,959

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, 2016 AND 2015
(Unaudited)

(in thousands, except per share amounts)	Three Months	
	Ended March 31, 2016	2015
Operating Revenues		
Water	\$66,312	\$71,504
Electric	10,573	10,969
Contracted services	16,642	18,460
Total operating revenues	93,527	100,933
Operating Expenses		
Water purchased	13,799	12,291
Power purchased for pumping	1,632	2,017
Groundwater production assessment	2,700	3,389
Power purchased for resale	2,871	2,499
Supply cost balancing accounts	(3,415)	1,813
Other operation	6,966	6,160
Administrative and general	20,773	19,527
Depreciation and amortization	9,791	10,548
Maintenance	4,070	3,477
Property and other taxes	4,378	4,276
ASUS construction	8,729	10,046
Total operating expenses	72,294	76,043
Operating Income	21,233	24,890
Other Income and Expenses		
Interest expense	(5,623)	(5,228)
Interest income	172	112
Other, net	181	273
Total other income and expenses	(5,270)	(4,843)
Income from operations before income tax expense	15,963	20,047
Income tax expense	5,813	7,898
Net Income	\$10,150	\$12,149
Weighted Average Number of Common Shares Outstanding	36,521	38,205
Basic Earnings Per Common Share	\$0.28	\$0.32
Weighted Average Number of Diluted Shares	36,697	38,408
Fully Diluted Earnings Per Common Share	\$0.28	\$0.32

Dividends Paid Per Common Share	\$0.224	\$0.213
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The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Unaudited)

	Three Months Ended March 31,	
(in thousands)	2016	2015
Cash Flows From Operating Activities:		
Net income	\$10,150	\$12,149
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,965	10,771
Provision for doubtful accounts	41	112
Deferred income taxes and investment tax credits	2,266	1,255
Stock-based compensation expense	786	853
Other — net	191	339
Changes in assets and liabilities:		
Accounts receivable — customers	2,625	1,958
Unbilled receivable	1,257	4,497
Other accounts receivable	945	1,507
Receivables from the U.S. government	1,785	(1,235)
Materials and supplies	235	(316)
Prepayments and other assets	(2,236)	(3,310)
Costs and estimated earnings in excess of billings on uncompleted contracts	1,277	8,055
Regulatory assets	(5,897)	(4,612)
Accounts payable	(3,091)	(2,765)
Income taxes receivable/payable	3,608	6,589
Billings in excess of costs and estimated earnings on uncompleted contracts	1,776	(386)
Accrued pension and other post-retirement benefits	1,088	2,099
Other liabilities	873	935
Net cash provided	27,644	38,495
Cash Flows From Investing Activities:		
Capital expenditures	(29,454)	(17,390)
Other investing activities	(79)	(71)
Net cash used	(29,533)	(17,461)
Cash Flows From Financing Activities:		
Proceeds from stock option exercises	126	292
Repurchase of Common Shares	—	(13,891)
Receipt of advances for and contributions in aid of construction	1,054	714
Refunds on advances for construction	(443)	(429)
Retirement or repayments of long-term debt	(77)	(69)
Proceeds from notes payable to banks	15,000	—
Dividends paid	(8,181)	(8,155)
Other	(1,497)	(809)
Net cash (used) provided	5,982	(22,347)
Net change in cash and cash equivalents	4,093	(1,313)
Cash and cash equivalents, beginning of period	4,364	75,988

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Cash and cash equivalents, end of period	\$8,457	\$74,675
Non-cash transactions:		
Accrued payables for investment in utility plant	\$21,017	\$11,003
Property installed by developers and conveyed	\$806	\$289

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

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GOLDEN STATE WATER COMPANY

BALANCE SHEETS

ASSETS

(Unaudited)

(in thousands)	March 31, 2016	December 31, 2015
Utility Plant		
Utility plant, at cost	\$1,607,283	\$1,578,865
Less - Accumulated depreciation	(532,885)	(522,749)
Net utility plant	1,074,398	1,056,116
Other Property and Investments	16,561	16,581
Current Assets		
Cash and cash equivalents	3,486	2,501
Accounts receivable-customers (less allowance for doubtful accounts of \$730 in 2016 and \$790 in 2015)	16,183	18,940
Unbilled receivable	16,497	18,181
Inter-company receivable	329	54
Other accounts receivable (less allowance for doubtful accounts of \$59 in 2016 and \$129 in 2015)	928	1,455
Income taxes receivable from Parent	7,852	11,000
Materials and supplies, at average cost	4,345	4,860
Regulatory assets — current	33,555	30,134
Prepayments and other current assets	4,546	2,793
Total current assets	87,721	89,918
Regulatory and Other Assets		
Regulatory assets	110,643	102,562
Other	6,714	6,702
Total regulatory and other assets	117,357	109,264
Total Assets	\$1,296,037	\$1,271,879

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

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BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

(in thousands)	March 31, 2016	December 31, 2015
Capitalization		
Common shares, no par value	\$238,233	\$ 238,795
Earnings reinvested in the business	185,567	184,935
Total common shareholder's equity	423,800	423,730
Long-term debt	320,910	320,900
Total capitalization	744,710	744,630
Current Liabilities		
Inter-company payable	27,033	12,000
Long-term debt — current	318	312
Accounts payable	40,039	39,610
Accrued other taxes	5,522	7,830
Accrued employee expenses	10,657	10,630
Accrued interest	6,352	3,599
Unrealized loss on purchased power contracts	7,245	7,053
Other	9,895	9,921
Total current liabilities	107,061	90,955
Other Credits		
Advances for construction	68,802	68,041
Contributions in aid of construction — net	117,386	117,810
Deferred income taxes	198,362	195,658
Unamortized investment tax credits	1,591	1,612
Accrued pension and other postretirement benefits	47,653	42,666
Other	10,472	10,507
Total other credits	444,266	436,294
Commitments and Contingencies (Note 8)		
Total Capitalization and Liabilities	\$1,296,037	\$ 1,271,879

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

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GOLDEN STATE WATER COMPANY
 STATEMENTS OF INCOME
 FOR THE THREE MONTHS
 ENDED MARCH 31, 2016 AND 2015
 (Unaudited)

(in thousands)	Three Months	
	Ended March 31, 2016	2015
Operating Revenues		
Water	\$66,312	\$71,504
Electric	10,573	10,969
Total operating revenues	76,885	82,473
Operating Expenses		
Water purchased	13,799	12,291
Power purchased for pumping	1,632	2,017
Groundwater production assessment	2,700	3,389
Power purchased for resale	2,871	2,499
Supply cost balancing accounts	(3,415)	1,813
Other operation	6,083	5,458
Administrative and general	16,516	15,557
Depreciation and amortization	9,530	10,241
Maintenance	3,539	2,817
Property and other taxes	3,987	3,918
Total operating expenses	57,242	60,000
Operating Income	19,643	22,473
Other Income and Expenses		
Interest expense	(5,570)	(5,218)
Interest income	170	104
Other, net	181	273
Total other income and expenses	(5,219)	(4,841)
Income from operations before income tax expense	14,424	17,632
Income tax expense	5,440	7,247
Net Income	\$8,984	\$10,385

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

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GOLDEN STATE WATER COMPANY
 STATEMENTS OF CASH FLOW
 FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
 (Unaudited)

	Three Months Ended March 31,	
(in thousands)	2016	2015
Cash Flows From Operating Activities:		
Net income	\$8,984	\$10,385
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,705	10,464
Provision for doubtful accounts	62	112
Deferred income taxes and investment tax credits	2,308	1,361
Stock-based compensation expense	578	627
Other — net	180	329
Changes in assets and liabilities:		
Accounts receivable — customers	2,625	1,958
Unbilled receivable	1,684	1,096
Other accounts receivable	597	989
Materials and supplies	515	(433)
Prepayments and other assets	(1,765)	(2,558)
Regulatory assets	(5,897)	(4,612)
Accounts payable	74	558
Inter-company receivable/payable	(242)	188
Income taxes receivable/payable from/to Parent	3,148	5,898
Accrued pension and other post-retirement benefits	1,088	2,099
Other liabilities	411	377
Net cash provided	24,055	28,838
Cash Flows From Investing Activities:		
Capital expenditures	(28,961)	(17,318)
Note receivable from AWR parent	(4,000)	—
Receipt of payment of note receivable from AWR parent	4,000	—
Other investing activities	(79)	(79)
Net cash used	(29,040)	(17,397)
Cash Flows From Financing Activities:		
Receipt of advances for and contributions in aid of construction	1,054	714
Refunds on advances for construction	(443)	(429)
Retirement or repayments of long-term debt	(77)	(69)
Net change in inter-company borrowings	15,000	—
Dividends paid	(8,300)	(13,000)
Other	(1,264)	(689)
Net cash (used) provided	5,970	(13,473)
Net change in cash and cash equivalents	985	(2,032)
Cash and cash equivalents, beginning of period	2,501	44,005

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Cash and cash equivalents, end of period	\$3,486	\$41,973
Non-cash transactions:		
Accrued payables for investment in utility plant	\$21,010	\$10,989
Property installed by developers and conveyed	\$806	\$289

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

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AMERICAN STATES WATER COMPANY AND SUBSIDIARIES
AND
GOLDEN STATE WATER COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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”) and American States Utility Services, Inc. (“ASUS”) (and its subsidiaries, Fort Bliss Water Services Company (“FBWS”), Terrapin Utility Services, Inc. (“TUS”), Old Dominion Utility Services, Inc. (“ODUS”), Palmetto State Utility Services, Inc. (“PSUS”) and Old North Utility Services, Inc. (“ONUS”). The subsidiaries of ASUS are collectively referred to as the “Military Utility Privatization Subsidiaries.”

GSWC is a public utility engaged principally in the purchase, production, distribution and sale of water in California serving approximately 260,000 customers. GSWC also distributes electricity in several San Bernardino County mountain communities in California serving approximately 24,000 customers through its Bear Valley Electric Service (“BVES”) division. Although Registrant has a diversified base of residential, industrial and other customers, revenues derived from commercial and residential water customers accounted for approximately 90% of total water revenues during the three months ended March 31, 2016 and 2015. The California Public Utilities Commission (“CPUC”) regulates GSWC’s water and electric businesses in matters including properties, rates, services, facilities and transactions by GSWC with its affiliates. AWR’s assets and operating income are primarily those of GSWC.

ASUS, through its wholly owned subsidiaries, operates, maintains and performs construction activities (including renewal and replacement capital work) on water and/or wastewater systems at various United States military bases pursuant to 50-year firm fixed-price contracts. These contracts are subject to periodic price redeterminations or 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 any of its wholly owned 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 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, all of which are wholly owned. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Inter-company transactions and balances have been eliminated in the AWR consolidated financial statements.

The consolidated financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The December 31, 2015 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles (“GAAP”) in the United States of America. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ

from these estimates. In the opinion of management, all adjustments consisting of normal, recurring items and estimates necessary for a fair statement of the results for the interim periods have been made. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2015 filed with the SEC.

GSWC's Related Party Transactions: GSWC 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 affiliate, ASUS, using allocation factors approved by the CPUC. During the three months ended March 31, 2016 and 2015, GSWC allocated to ASUS approximately \$1.0 million and \$707,000, respectively, of corporate office administrative and general costs. In addition, AWR has a \$100.0 million syndicated credit facility. AWR borrows under this facility and provides funds to its subsidiaries, including GSWC, in support of their operations. The interest rate charged to GSWC and ASUS is sufficient to cover AWR's interest cost under the credit facility.

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In October 2015, AWR issued interest bearing promissory notes (the "Notes") to GSWC and ASUS for \$40 million and \$10 million, respectively, which expire on May 23, 2018. Under the terms of these Notes, AWR may borrow from GSWC and ASUS amounts up to \$40 million and \$10 million, respectively, for working capital purposes. AWR agrees to pay any unpaid principal amounts outstanding under these notes, plus accrued interest. As of March 31, 2016, there were no amounts outstanding under these Notes.

Sales and Use Taxes: GSWC bills certain sales and use taxes levied by state or local governments to its customers. Included in these sales and use taxes are franchise fees, which GSWC pays to various municipalities (based on ordinances adopted by these municipalities) in order to use public rights of way for utility purposes. GSWC bills these franchise fees to its customers based on a CPUC-authorized rate for each rate-making area as applicable. These franchise fees, which are required to be paid regardless of GSWC's ability to collect them from its customer, are accounted for on a gross basis. GSWC's franchise fees billed to customers and recorded as operating revenue were approximately \$867,000 and \$871,000 for the three months ended March 31, 2016 and 2015, respectively. When GSWC acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis.

Depending on the states in which their operations are conducted, the Military Utility Privatization Subsidiaries are also subject to certain state non-income tax assessments generally computed on a "gross receipts" or "gross revenues" basis. These non-income tax assessments are required to be paid regardless of whether the U.S. government reimburses these assessments under the 50-year contracts. The non-income tax assessments are accounted for on a gross basis and totaled \$62,000 and \$32,000 during the three months ended March 31, 2016 and 2015, respectively.

Recently Issued Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued updated accounting guidance on revenue recognition. The guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. Under this guidance, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what the entity expects in exchange for the goods or services. The guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and adoption is not permitted earlier than the original effective date, that is, no earlier than 2017. The guidance allows entities to select one of two methods of adoption, either the full retrospective approach, meaning the guidance would be applied to all periods presented, or modified retrospective approach, meaning the cumulative effect of applying the guidance would be recognized as an adjustment to opening retained earnings at January 1, 2018, along with providing certain additional disclosures. Registrant will adopt this guidance in the fiscal year beginning January 1, 2018. Management has not yet selected a transition method nor has it determined the effect of the standard on the Company's ongoing financial reporting.

In April 2015, the FASB issued Accounting Standard Update 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, rather than as an asset. The standard does not affect the recognition and measurement of debt issuance costs. This guidance was adopted January 1, 2016. Accordingly, as of March 31, 2016 and December 31, 2015, Registrant had debt issuance costs, excluding credit facility costs, of \$4.5 million and \$4.6 million, respectively, reflected in "Long-term debt." Prior to the adoption of this new guidance, debt issuance costs, excluding credit facility costs, of \$4.6 million as of December 31, 2015 were reported in noncurrent "Other Assets." On February 25, 2016, the FASB issued a new lease accounting standard, Leases (ASC 842). Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). Extensive quantitative and qualitative disclosures, including significant judgments made by management, will be required in order to provide greater insight into the extent of revenue and expense recognized, and expected to be recognized, from existing contracts. The standard is effective for

fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Management has not yet determined the effect of the standard on the Company's ongoing financial reporting.

On March 30, 2016, the FASB issued Accounting Standard Update 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC Topic 718, Compensation - Stock Compensation. Under the new guidance, the tax effects related to share-based payments at settlement (or expiration) will be required to be recorded through the income statement rather than through equity, further increasing the volatility of income tax expense. The new standard also removes the requirement to delay recognition of a windfall tax benefit until an employer reduces its current taxes payable. It also permits entities to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Management has not yet determined the effect of the standard on the Company's ongoing financial reporting.

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Note 2 — Regulatory Matters:

In accordance with accounting principles for rate-regulated enterprises, Registrant 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 March 31, 2016, Registrant had approximately \$54.0 million of regulatory assets, net of regulatory liabilities, not accruing carrying costs. Of this amount, \$23.7 million relates to the underfunded position in Registrant's pension and other post-retirement obligations, \$7.2 million relates to a memorandum account authorized by the CPUC to track unrealized gains and losses on BVES' purchase power contracts over the term of the contracts, and \$16.6 million relates to deferred income taxes representing accelerated tax benefits flowed through to customers, which will be included in rates concurrently with recognition of the associated future tax expense. The remainder relates to other items that do not provide for or incur carrying costs.

Regulatory assets represent costs incurred by GSWC for which it has received or expects to receive rate recovery in the future. In determining the probability of costs being recognized in other periods, GSWC considers 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 GSWC's assets are not recoverable in customer rates, GSWC must determine if it has suffered an asset impairment that requires it to write-down the assets' value. Regulatory assets are offset against regulatory liabilities within each rate-making area. Amounts expected to be collected or refunded in the next 12-months have been classified as current assets and current liabilities by rate-making area. Regulatory assets, less regulatory liabilities, included in the consolidated balance sheets are as follows:

(dollars in thousands)	March 31, 2016	December 31, 2015
GSWC		
Water Revenue Adjustment Mechanism, net of Modified Cost Balancing Account	\$53,948	\$ 45,171
Costs deferred for future recovery on Aerojet case	12,567	12,699
Pensions and other post-retirement obligations (Note 7)	25,538	21,996
Derivative unrealized loss (Note 4)	7,245	7,053
Flow-through taxes, net (Note 6)	16,551	16,176
Low income rate assistance balancing accounts	8,810	8,699
Other regulatory assets	25,298	25,668
Various refunds to customers	(5,759)	(4,766)
Total	\$144,198	\$ 132,696

Regulatory matters are discussed in detail in the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2015 filed with the SEC. The discussion below focuses on significant matters and developments since December 31, 2015.

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 Modified Cost Balancing Account ("MCBA") accounts approved by the CPUC. The over- or under-collection of the WRAM is netted against the MCBA over- or under-collection for the corresponding rate-making area and bears interest at the current 90-day commercial paper rate.

GSWC has implemented surcharges to recover its WRAM/MCBA balances as of December 31, 2015. For the three months ended March 31, 2016 and 2015, surcharges (net of surcredits) of approximately \$1.4 million and \$600,000, respectively, were billed to customers to recover previously incurred under-collections in the WRAM/MCBA accounts. During the three months ended March 31, 2016, GSWC recorded additional net under-collections in the WRAM/MCBA accounts of \$10.1 million using 2015 adopted revenues since the CPUC has not approved the pending water rate case, which will set new rates for the years 2016 - 2018 as discussed below. As of March 31, 2016, GSWC had a net aggregated regulatory asset of \$53.9 million which is comprised of a \$55.0 million under-collection in the WRAM accounts and \$1.1 million over-collection in the MCBA accounts.

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As required by the accounting guidance for alternative revenue programs, GSWC is required to collect its WRAM balances, net of its MCBA, within 24 months following the year in which an under-collection is recorded. In April 2012, the CPUC issued a final decision which, among other things, sets the recovery period for under-collected balances that are up to 15% of adopted annual revenues at 18 months or less. For under-collected balances greater than 15%, the recovery period is 19 to 36 months. In addition to adopting a new amortization schedule, the final decision sets a cap on total net WRAM/MCBA surcharges in any given calendar year of 10% of the last authorized revenue requirement. As of March 31, 2016, the recovery periods for the majority of GSWC's WRAM/MCBA balances are primarily within the 12 to 18-month period; however, there were some ratemaking areas that had recovery periods related to the 2015 WRAM balances greater than 24 months. As a result, during the fourth quarter of 2015, GSWC did not record \$1.4 million of the 2015 WRAM under-collection balance as revenue. This amount will be recognized as revenue in future periods when it is determined that the amounts will be collected within 24 months. In February 2016, GSWC filed with the CPUC for recovery of the 2015 WRAM balances, including the \$1.4 million.

Other Regulatory Matters:

Pending Water General Rate Case:

In 2014, GSWC filed a general rate case ("GRC") for all of its water regions and the general office to determine new rates for the years 2016-2018. A final decision is expected sometime during 2016. Once the decision is issued, the rates will be retroactive to January 1, 2016. GSWC has settled with the CPUC's Office of Ratepayer Advocates ("ORA") the majority of GSWC's operating expenses, as well as the consumption levels used to calculate rates for 2016-2018, which reflect the state-mandated conservation targets. The primary unresolved issues relate to GSWC's capital budget requests and compensation for managerial level employees. At this time, GSWC cannot predict the final outcome of this GRC. The final decision, once issued, could result in a material change to GSWC's net income recorded during the first quarter of 2016, which would need to be adjusted in the quarter that the final decision is issued.

Year-to-date 2016 billed revenue has been based on 2015 adopted rates established in the prior GRC. The adopted revenues for 2016, once the CPUC issues a final decision in the current GRC, are expected to be lower than the 2015 adopted levels due primarily to decreases in supply costs caused by lower consumption, depreciation expense resulting from an updated depreciation study, and other operating expenses. As a result of the anticipated reduction in the 2016 adopted revenue level, GSWC has adjusted its water revenues downward for the three months ended March 31, 2016 with corresponding decreases to supply costs, depreciation expense and certain other expenses, to reflect the settled positions with ORA. The adjustment to 2016 recorded water revenues also reflects GSWC's positions on unresolved capital budget and compensation related issues in the pending GRC. These adjustments did not have a significant impact to pretax operating income for the three months ended March 31, 2016 as the overall reduction in the water margin is mostly offset by the lower depreciation and other operating expenses.

Procurement Audits:

In December 2011, the CPUC issued a final decision adopting a settlement between GSWC and the CPUC on its investigation of certain work orders and charges paid to a specific contractor used previously for numerous construction projects primarily in one of GSWC's three main geographic water regions. As part of the settlement reached with the CPUC on this matter, GSWC agreed to be subject to three separate independent audits of its procurement practices over a period of 10 years from the date the settlement was approved by the CPUC. The audits cover GSWC's procurement practices for contracts with other contractors from 1994 forward. The first audit started in 2014 and covered almost a 20-year period from January 1, 1994 through September 30, 2013.

In March 2015, the accounting firm engaged by the CPUC to conduct the first independent audit issued its final report to the CPUC's Division of Water and Audits ("DWA"). The final report, which was issued on a confidential basis, included GSWC's responses to the accounting firm's findings, as well as the firm's responses to GSWC's comments. DWA informed GSWC that it does not intend to pursue further investigation, refunds, or penalties in respect of past procurement activities as a result of the final report. Furthermore, in June 2015 the CPUC's Office of Ratepayer Advocates ("ORA") notified the administrative law judge in the ongoing general rate case that, having reviewed the final audit report, its potential concerns with the audit report were satisfied and, as such, ORA withdrew its request to

have further review of this matter in the pending general rate case. At this time, GSWC does not believe that a loss associated with any disallowances and/or penalties from this first audit is likely.

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Note 3 — Earnings per Share/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 2000 and 2008 Stock Incentive Plans and the 2003 and 2013 Non-Employee Directors Stock 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 used for calculating basic net income per share:

Basic:	For The Three Months Ended March 31,	
	2016	2015
(in thousands, except per share amounts)		
Net income	\$ 10,150	\$ 12,149
Less: (a) Distributed earnings to common shareholders	8,181	8,138
Distributed earnings to participating securities	45	45
Undistributed earnings	1,924	3,966
(b) Undistributed earnings allocated to common shareholders	1,914	3,945
Undistributed earnings allocated to participating securities	10	21
Total income available to common shareholders, basic (a)+(b)	\$ 10,095	\$ 12,083
Weighted average Common Shares outstanding, basic	36,521	38,205
Basic earnings per Common Share	\$ 0.28	\$ 0.32

Diluted EPS is based upon the weighted average number of Common Shares, including both outstanding shares and shares potentially issuable in connection with stock options and restricted stock units granted under AWR’s 2000 and 2008 Stock Incentive Plans, and the 2003 and 2013 Non-Employee Directors Stock Plans, and net income. At March 31, 2016 and 2015, there were 142,402 and 198,764 options outstanding, respectively, under these Plans. At March 31, 2016 and 2015, there were also 215,129 and 226,319 restricted stock units outstanding, respectively, 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:	For The Three Months Ended March 31,	
	2016	2015
(in thousands, except per share amounts)		
Common shareholders earnings, basic	\$ 10,095	\$ 12,083
Undistributed earnings for dilutive stock-based awards	10	21
Total common shareholders earnings, diluted	\$ 10,105	\$ 12,104
Weighted average common shares outstanding, basic	36,521	38,205
Stock-based compensation (1)	176	203
Weighted average common shares outstanding, diluted	36,697	38,408
Diluted earnings per Common Share	\$ 0.28	\$ 0.32

(1) In applying the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in the calculation of diluted EPS, 142,402 and 198,764 stock options at March 31, 2016 and 2015, respectively, were deemed to be outstanding in accordance with the accounting guidance on earnings per share. All of the 215,129 and 226,319 restricted stock

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units at March 31, 2016 and 2015, respectively, were included in the calculation of diluted EPS for the three months ended March 31, 2016 and 2015.

No stock options outstanding at March 31, 2016 had an exercise price greater than the average market price of AWR's Common Shares for the three months ended March 31, 2016. There were no stock options outstanding at March 31, 2016 or 2015 that were anti-dilutive.

During the three months ended March 31, 2016 and 2015, AWR issued 52,153 and 47,422 common shares for approximately \$126,000 and \$292,000, respectively, under Registrant's Common Share Purchase and Dividend Reinvestment Plan, the 401(k) Plan, the 2000 and 2008 Stock Incentive Plans and the 2003 and 2013 Non-Employee Directors Stock Plans.

On March 27, 2014, AWR's Board of Directors approved a stock repurchase program, authorizing AWR to repurchase up to 1.25 million shares of its Common Shares from time to time through June 30, 2016. Pursuant to this program, Registrant repurchased 356,769 Common Shares on the open market during the three months ended March 31, 2015. This stock repurchase program was completed in 2015.

During the three months ended March 31, 2016 and 2015, AWR paid quarterly dividends of approximately \$8.2 million, or \$0.224 per share, and \$8.2 million, or \$0.213 per share, respectively.

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Note 4 — Derivative Instruments:

Derivative financial instruments are used to manage exposure to commodity price risk. Commodity price risk represents the potential impact that can be caused by a change in the market value of a particular commodity. BVES purchases power under long-term contracts at a fixed cost depending on the amount of power and the period during which the power is purchased under such contracts. In December 2014, the CPUC approved an application that allowed BVES to immediately execute new long-term purchased power contracts with energy providers on December 9, 2014. BVES began taking power under these long-term contracts effective January 1, 2015 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 December 2014 are subject to the accounting guidance for derivatives and require mark-to-market derivative accounting. Among other things, the CPUC also authorized GSWC 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 the purchased power contracts executed in December 2014 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 GSWC's earnings. As of March 31, 2016, there was a \$7.2 million unrealized loss in the memorandum account for the purchased power contracts as a result of the recent drop in energy prices. The notional volume of derivatives remaining under these long-term contracts as of March 31, 2016 was approximately 457,000 megawatt hours.

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, GSWC makes fair value measurements that are classified and disclosed in one of the following three categories:

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

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

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

To value the contract, Registrant applies the Black-76 model, utilizing various inputs that include quoted market prices for energy over the duration of the contract. The market prices used to determine the fair value for this derivative instrument were estimated based on independent sources such as broker quotes and publications that are not observable in or corroborated by the market. Registrant received one broker quote to determine the fair value of its derivative instrument. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3. Accordingly, the valuation of the derivative on Registrant's purchased power contract has been classified as Level 3 for all periods presented.

The following table presents changes in the fair value of GSWC's Level 3 derivatives for the three months ended March 31, 2016 and 2015:

(dollars in thousands)	2016	2015
Fair value at beginning of the period	\$(7,053)	\$(3,339)
Unrealized loss on purchased power contracts	(192)	(2,837)
Fair value at end of the period	\$(7,245)	\$(6,176)

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Note 5 — Fair Value of Financial Instruments:

For cash and cash equivalents, accounts receivable, accounts payable and short-term debt, the carrying amount is assumed to approximate fair value due to the short-term nature of the amounts.

Investments held in a Rabbi Trust for the supplemental executive retirement plan are measured at fair value and totaled \$10.0 million as of March 31, 2016. All equity investments in the Rabbi Trust are Level 1 investments in mutual funds. The investments held in the Rabbi Trust are included in Other Property and Investments on Registrant's balance sheets.

The table below estimates the fair value of long-term debt held by GSWC. The fair values as of March 31, 2016 and December 31, 2015 were determined using rates for similar financial instruments of the same duration utilizing Level 2 methods and assumptions. The interest rates used for the March 31, 2016 valuation decreased as compared to December 31, 2015, increasing the fair value of long-term debt as of March 31, 2016. Changes in the assumptions will produce differing results.

	March 31, 2016		December 31, 2015	
(dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Long-term debt—GSWC (1)	\$325,776	\$418,104	\$325,853	\$403,844

(1) Excludes debt issuance costs and redemption premiums.

Note 6 — Income Taxes:

As a regulated utility, GSWC treats certain temporary differences as flow-through adjustments in computing its income tax provision consistent with the income tax approach approved by the CPUC for ratemaking purposes. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting 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 (“ETR”) and the statutory federal income tax rate in any given period than would otherwise exist if GSWC were not required to account for its income taxes as a regulated enterprise. The GSWC ETR was 37.7% and 41.1% for the three months ended March 31, 2016 and 2015, respectively. The GSWC ETRs deviate from the statutory rate primarily due to state tax and differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (principally plant-, rate-case- and compensation-related items). The ETR at the AWR consolidated level may also fluctuate as a result of certain permanent differences recorded at AWR (parent) and ASUS and its subsidiaries, as well as state taxes recorded at AWR (parent) and ASUS and its subsidiaries (where the amounts of state taxes vary among the jurisdictions in which they operate).

Changes in Tax Law:

In December 2015, the Protecting Americans From Tax Hikes Act of 2015 extended bonus depreciation for qualifying property through 2019. For 2015 through 2017, bonus depreciation was extended at a 50% rate. For 2018-2019, bonus depreciation will be phased down to 40% and 30%, respectively. Although the change in law reduces AWR's current taxes payable over these years, it does not reduce its total income tax expense or ETR.

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Note 7 — Employee Benefit Plans:

The components of net periodic benefit costs, before allocation to the overhead pool, for Registrant's pension plan, postretirement plan and Supplemental Executive Retirement Plan ("SERP") for the three months ended March 31, 2016 and 2015 are as follows:

	For The Three Months Ended March 31,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2016	2015	2016	2015	2016	2015
Components of Net Periodic Benefits Cost:						
Service cost	\$1,232	\$1,686	\$ 68	\$ 95	\$200	\$204
Interest cost	1,930	1,939	97	114	186	163
Expected return on plan assets	(2,460)	(2,446)	(122)	(123)	—	—
Amortization of transition	—	—	—	—	—	—
Amortization of prior service cost (benefit)	12	30	(9)	(50)	6	29
Amortization of actuarial (gain) loss	127	469	(150)	(53)	73	108
Net periodic pension cost under accounting standards	841	1,678	(116)	(17)	465	504
Regulatory adjustment — deferred	359	11	—	—	—	—
Total expense recognized, before allocation to overhead pool	\$1,200					