Golden State Water CO
Form 10-Q
November 03, 2015
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 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 Organization)	(IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA	91773-1212
(Address of Principal Executive Offices)	(Zip Code)

(909) 394-3600
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)
Commission file number 001-12008
Golden State Water Company
(Exact Name of Registrant as Specified in Its Charter)

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

(909) 394-3600
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

American States Water Company	Yes 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).

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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 November 2, 2015, the number of Common Shares outstanding, of American States Water Company was 36,728,248 shares. As of November 2, 2015, 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 outcome 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 recovery of our costs through rates;

- the impact of 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 GSWC's 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 division'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;
- changes in accounting treatment for regulated utilities;
- effects of changes in or interpretations of tax laws, rates or policies;
- 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;
- 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 ASUS's 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;
- delays in obtaining redetermination of prices or equitable adjustments to our prices for 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;

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- failure of any subcontractors to perform services for us in accordance with the terms of our military privatization contracts;
- 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; 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 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)	September 30, 2015	December 31, 2014
Property, Plant and Equipment		
Regulated utility plant, at cost	$1,547,330	$1,492,880
Non-utility property, at cost	11,078	10,879
Total	1,558,408	1,503,759
Less - Accumulated depreciation	(526,289)	(500,239)
Net property, plant and equipment	1,032,119	1,003,520
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	18,301	17,536
Total other property and investments	19,417	18,652
Current Assets		
Cash and cash equivalents	27,254	75,988
Accounts receivable — customers (less allowance for doubtful accounts of $849 in 2015 and $803 in 2014)	22,112	18,814
Unbilled receivable	21,909	21,422
Receivable from the U.S. government	4,934	6,709
Other accounts receivable (less allowance for doubtful accounts of $129 in 2015 and $89 in 2014)	7,385	4,843
Income taxes receivable	174	20,993
Materials and supplies, at average cost	5,874	3,588
Regulatory assets — current	10,557	12,379
Prepayments and other current assets	3,931	2,745
Costs and estimated earnings in excess of billings on contracts	22,345	34,535
Deferred income taxes — current	8,988	7,435
Total current assets	135,463	209,451
Regulatory and Other Assets		
Regulatory assets	144,800	118,829
Costs and estimated earnings in excess of billings on contracts	20,856	15,741
Other	9,509	12,105
Total regulatory and other assets	175,165	146,675
Total Assets	$1,362,164	$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)	September 30, 2015	December 31, 2014
Capitalization		
Common shares, no par value	$244,327	$253,199
Earnings reinvested in the business	225,696	253,602
Total common shareholders' equity	470,023	506,801
Long-term debt	325,550	325,798
Total capitalization	795,573	832,599
Current Liabilities		
Notes payable to banks	15,000	—
Long-term debt — current	312	292
Accounts payable	46,517	41,855
Income taxes payable	2,858	638
Accrued other taxes	8,329	8,602
Accrued employee expenses	11,684	10,519
Accrued interest	6,282	3,549
Unrealized loss on purchased power contracts	7,246	3,339
Billings in excess of costs and estimated earnings on contracts	7,504	11,736
Other	18,244	18,760
Total current liabilities	123,976	99,290
Other Credits		
Advances for construction	67,104	68,328
Contributions in aid of construction	116,207	116,629
Deferred income taxes	191,825	191,209
Unamortized investment tax credits	1,632	1,699
Accrued pension and other postretirement benefits	59,190	61,773
Other	6,657	6,771
Total other credits	442,615	446,409
Commitments and Contingencies (Note 8)		
Total Capitalization and Liabilities	$1,362,164	$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 SEPTEMBER 30, 2015 AND 2014
(Unaudited)

	Three Months Ended September 30,	
(in thousands, except per share amounts)	2015	2014
Operating Revenues		
Water	$97,273	$96,700
Electric	7,946	8,614
Contracted services	27,756	33,013
Total operating revenues	132,975	138,327
Operating Expenses		
Water purchased	18,127	17,837
Power purchased for pumping	2,982	3,914
Groundwater production assessment	3,146	4,291
Power purchased for resale	2,299	2,383
Supply cost balancing accounts	4,824	3,179
Other operation	7,056	6,958
Administrative and general	19,272	20,142
Depreciation and amortization	10,512	10,549
Maintenance	4,393	4,390
Property and other taxes	4,326	4,359
ASUS construction	14,853	20,430
Total operating expenses	91,790	98,432
Operating Income	41,185	39,895
Other Income and Expenses		
Interest expense	(5,484)	(5,519)
Interest income	118	224
Other, net	(346)	47
Total other income and expenses	(5,712)	(5,248)
Income from operations before income tax expense	35,473	34,647
Income tax expense	14,394	13,476
Net Income	$21,079	$21,171
Weighted Average Number of Common Shares Outstanding	37,063	38,704
Basic Earnings Per Common Share	$0.57	$0.54
Weighted Average Number of Diluted Shares	37,266	38,930
Fully Diluted Earnings Per Common Share	$0.56	$0.54

Dividends Paid Per Common Share	$0.2240	$0.2130

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

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2015 AND 2014
(Unaudited)

	Nine Months Ended September 30,	
(in thousands, except per share amounts)	2015	2014
Operating Revenues		
Water	$256,358	$253,689
Electric	26,804	27,398
Contracted services	65,364	74,826
Total operating revenues	348,526	355,913
Operating Expenses		
Water purchased	46,833	45,324
Power purchased for pumping	7,122	8,448
Groundwater production assessment	10,657	12,684
Power purchased for resale	7,364	7,070
Supply cost balancing accounts	8,453	3,891
Other operation	20,578	20,990
Administrative and general	59,270	59,733
Depreciation and amortization	31,596	31,604
Maintenance	12,075	12,206
Property and other taxes	12,662	12,649
ASUS construction	35,311	47,651
Total operating expenses	251,921	262,250
Operating Income	96,605	93,663
Other Income and Expenses		
Interest expense	(16,239)	(16,924)
Interest income	332	459
Other, net	4	443
Total other income and expenses	(15,903)	(16,022)
Income from operations before income tax expense	80,702	77,641
Income tax expense	31,826	30,095
Net Income	$48,876	$47,546
Weighted Average Number of Common Shares Outstanding	37,653	38,744
Basic Earnings Per Common Share	$1.29	$1.22
Weighted Average Number of Diluted Shares	37,853	38,963
Fully Diluted Earnings Per Common Share	$1.29	$1.22
Dividends Paid Per Common Share	$0.650	$0.618

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

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	2015	2014
Cash Flows From Operating Activities:		
Net income	$48,876	$47,546
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32,110	32,302
Provision for doubtful accounts	620	781
Deferred income taxes and investment tax credits	1,187	(3,236)
Stock-based compensation expense	2,117	1,961
Other — net	1,047	288
Changes in assets and liabilities:		
Accounts receivable — customers	(3,870)	(3,345)
Unbilled receivable	(487)	(14,077)
Other accounts receivable	(3,294)	2,559
Receivables from the U.S. government	1,775	3,564
Materials and supplies	(2,286)	635
Prepayments and other assets	1,116	(579)
Costs and estimated earnings in excess of billings on contracts	7,075	6,036
Regulatory assets	(25,907)	18,143
Accounts payable	3,936	5,450
Income taxes receivable/payable	23,039	14,213
Billings in excess of costs and estimated earnings on contracts	(4,232)	8,847
Accrued pension and other post-retirement benefits	(1,128)	(3,623)
Other liabilities	4,404	2,604
Net cash provided	86,098	120,069
Cash Flows From Investing Activities:		
Capital expenditures	(59,848)	(53,714)
Other investing activities	(1,456)	(1,696)
Net cash used	(61,304)	(55,410)
Cash Flows From Financing Activities:		
Proceeds from stock option exercises	746	370
Repurchase of Common Shares	(63,234)	(7,101)
Receipt of advances for and contributions in aid of construction	2,928	5,157
Refunds on advances for construction	(3,161)	(3,062)
Retirement or repayments of long-term debt	(228)	(15,278)
Dividends paid	(24,497)	(23,931)
Net change in notes payable to banks	15,000	—
Other financing activities	(1,082)	(1,178)
Net cash used	(73,528)	(45,023)
Net change in cash and cash equivalents	(48,734)	19,636
Cash and cash equivalents, beginning of period	75,988	38,226
Cash and cash equivalents, end of period	$27,254	$57,862

Non-cash transactions:		
Accrued payables for investment in utility plant	$13,866	$14,018
Property installed by developers and conveyed	$1,705	$388

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

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GOLDEN STATE WATER COMPANY
BALANCE SHEETS
ASSETS
(Unaudited)

(in thousands)	September 30, 2015	December 31, 2014
Utility Plant		
Utility plant, at cost	$1,547,330	$1,492,880
Less - Accumulated depreciation	(519,487)	(494,000)
Net utility plant	1,027,843	998,880
Other Property and Investments	16,169	15,395
Current Assets		
Cash and cash equivalents	19,286	44,005
Accounts receivable-customers (less allowance for doubtful accounts of $849 in 2015 and $803 in 2014)	22,112	18,814
Unbilled receivable	17,730	17,733
Inter-company receivable	171	499
Other accounts receivable (less allowance for doubtful accounts of $129 in 2015 and $89 in 2014)	1,121	3,795
Income taxes receivable from Parent	444	29,580
Note receivable from Parent	15,000	—
Materials and supplies, at average cost	5,264	2,791
Regulatory assets — current	10,557	12,379
Prepayments and other current assets	3,479	2,507
Deferred income taxes — current	8,533	6,500
Total current assets	103,697	138,603
Regulatory and Other Assets		
Regulatory assets	144,800	118,829
Other	9,719	10,667
Total regulatory and other assets	154,519	129,496
Total Assets	$1,302,228	$1,282,374

The accompanying notes are an integral part of these financial statements

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

(in thousands)	September 30, 2015	December 31, 2014
Capitalization		
Common shares, no par value	$237,056	$235,607
Earnings reinvested in the business	195,032	199,583
Total common shareholder’s equity	432,088	435,190
Long-term debt	325,550	325,798
Total capitalization	757,638	760,988
Current Liabilities		
Inter-company Payables	15,000	—
Long-term debt — current	312	292
Accounts payable	34,929	29,619
Accrued other taxes	7,966	8,442
Accrued employee expenses	10,583	9,591
Accrued interest	6,282	3,593
Unrealized loss on purchased power contracts	7,246	3,339
Other	17,990	18,659
Total current liabilities	100,308	73,535
Other Credits		
Advances for construction	67,104	68,328
Contributions in aid of construction	116,207	116,629
Deferred income taxes	193,597	192,787
Unamortized investment tax credits	1,632	1,699
Accrued pension and other postretirement benefits	59,190	61,773
Other	6,552	6,635
Total other credits	444,282	447,851
Commitments and Contingencies (Note 8)		
Total Capitalization and Liabilities	$1,302,228	$1,282,374

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 2015 AND 2014
(Unaudited)

	Three Months Ended September 30,	
(in thousands)	2015	2014
Operating Revenues		
Water	$97,273	$96,700
Electric	7,946	8,614
Total operating revenues	105,219	105,314
Operating Expenses		
Water purchased	18,127	17,837
Power purchased for pumping	2,982	3,914
Groundwater production assessment	3,146	4,291
Power purchased for resale	2,299	2,383
Supply cost balancing accounts	4,824	3,179
Other operation	6,109	6,223
Administrative and general	15,690	17,261
Depreciation and amortization	10,241	10,236
Maintenance	3,878	3,765
Property and other taxes	3,842	3,879
Total operating expenses	71,138	72,968
Operating Income	34,081	32,346
Other Income and Expenses		
Interest expense	(5,499)	(5,509)
Interest income	115	214
Other, net	(345)	47
Total other income and expenses	(5,729)	(5,248)
Income from operations before income tax expense	28,352	27,098
Income tax expense	12,109	11,019
Net Income	$16,243	$16,079

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

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GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2015 AND 2014
(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	2015	2014
Operating Revenues		
Water	$256,358	$253,689
Electric	26,804	27,398
Total operating revenues	283,162	281,087
Operating Expenses		
Water purchased	46,833	45,324
Power purchased for pumping	7,122	8,448
Groundwater production assessment	10,657	12,684
Power purchased for resale	7,364	7,070
Supply cost balancing accounts	8,453	3,891
Other operation	18,107	19,027
Administrative and general	48,250	50,670
Depreciation and amortization	30,717	30,708
Maintenance	10,362	10,609
Property and other taxes	11,508	11,305
Total operating expenses	199,373	199,736
Operating Income	83,789	81,351
Other Income and Expenses		
Interest expense	(16,233)	(16,841)
Interest income	316	436
Other, net	(139)	443
Total other income and expenses	(16,056)	(15,962)
Income from operations before income tax expense	67,733	65,389
Income tax expense	28,156	26,507
Net Income	$39,577	$38,882

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

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GOLDEN STATE WATER COMPANY
STATEMENTS OF CASH FLOW
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	2015	2014
Cash Flows From Operating Activities:		
Net income	$39,577	$38,882
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,231	31,406
Provision for doubtful accounts	620	844
Deferred income taxes and investment tax credits	901	(3,110)
Stock-based compensation expense	1,823	1,513
Other — net	1,036	273
Changes in assets and liabilities:		
Accounts receivable — customers	(3,870)	(3,345)
Unbilled receivable	3	(2,269)
Other accounts receivable	1,922	2,438
Materials and supplies	(2,473)	(606)
Prepayments and other assets	(272)	(579)
Regulatory assets	(25,907)	18,143
Accounts payable	4,584	2,941
Inter-company receivable/payable	328	541
Income taxes receivable/payable from/to Parent	29,136	10,354
Accrued pension and other post-retirement benefits	(1,128)	(3,623)
Other liabilities	3,862	2,616
Net cash provided	81,373	96,419
Cash Flows From Investing Activities:		
Capital expenditures	(59,330)	(52,150)
Note receivable from AWR parent	(15,000)	(8,300)
Receipt of payment of note receivable from AWR parent	—	8,800
Other investing activities	(1,506)	(1,739)
Net cash used	(75,836)	(53,389)
Cash Flows From Financing Activities:		
Receipt of advances for and contributions in aid of construction	2,928	5,157
Refunds on advances for construction	(3,161)	(3,062)
Retirement or repayments of long-term debt	(228)	(15,278)
Dividends paid	(44,000)	(39,000)
Net change in inter-company borrowings	15,000	—
Other financing activities	(795)	(995)
Net cash used	(30,256)	(53,178)
Net change in cash and cash equivalents	(24,719)	(10,148)
Cash and cash equivalents, beginning of period	44,005	37,875
Cash and cash equivalents, end of period	$19,286	$27,727

Non-cash transactions:		
Accrued payables for investment in utility plant	$13,866	$14,017
Property installed by developers and conveyed	$1,705	$388

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 and nine months ended September 30, 2015 and 2014. 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 ASUS's 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. Certain prior-period amounts in the Consolidated and GSWC Statements of Cash Flow have been reclassified to conform to the 2015 presentation of "Regulatory assets" as a separate line item.

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, 2014 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 those estimates. In the opinion of management, all adjustments consisting of normal, recurring items and estimates necessary for a fair statement of the results for the interim periods have been made. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2014 filed with the SEC.

GSWC's Related Party Transactions: In May 2013, AWR issued an interest bearing promissory note to GSWC for $20.0 million which expires on May 23, 2018. The amount of this note was increased to $40.0 million on October 27, 2015. Under the terms of this note, AWR may borrow from GSWC amounts up to $40.0 million for working capital purposes. AWR agreed to pay any unpaid principal amounts outstanding under this note, plus accrued interest. As of September 30, 2015, AWR had $15.0 million outstanding and owed to GSWC under this note.

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In October 2015, AWR issued an interest bearing promissory note to ASUS for $10.0 million which expires on May 23, 2018. Under the terms of this note, AWR may borrow from ASUS amounts up to $10.0 million for working capital purposes. AWR agreed to pay any unpaid principal amounts outstanding under this note, plus accrued interest.

GSWC and ASUS provide and 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. GSWC allocated corporate office administrative and general costs to ASUS of approximately $659,000 and $658,000 during the three months ended September 30, 2015 and 2014, respectively, and approximately $2.0 million during the nine months ended September 30, 2015 and 2014. 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. Amounts owed to GSWC by AWR, including for allocated expenses, are included in GSWC's inter-company receivables as of September 30, 2015 and December 31, 2014.

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 customers, are accounted for on a gross basis. GSWC's franchise fees billed to customers and recorded as operating revenue were approximately $1.1 million for the three months ended September 30, 2015 and 2014, and $3 million and $2.9 million for the nine months ended September 30, 2015 and 2014, respectively. When GSWC acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis.

Depending on the state in which its operations are conducted, ASUS is also subject to certain state non-income tax assessments generally computed on a "gross receipts" or "gross revenues" basis. These non-income tax assessments are required to be paid regardless of whether the subsidiary is reimbursed by the U.S. government for these assessments under its 50-year contracts. The non-income tax assessments are accounted for on a gross basis and totaled $265,000 and $248,000 during the three months ended September 30, 2015 and 2014, respectively, and $351,000 and $554,000 for the nine months ended September 30, 2015 and 2014, 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. On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year. 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 intends to 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. The guidance is effective January 1, 2016. In August 2015, the FASB issued Accounting Standard Update 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which provided additional guidance for presentation of debt issuance costs related to line-of-credit arrangements. Under this guidance, entities may present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. As of September 30, 2015, Registrant had $4.8 million in debt issuance costs reflected under "Other Noncurrent Assets," including $113,000 associated with Registrant's syndicated credit facility.

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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 September 30, 2015, Registrant had approximately $67.9 million of regulatory assets, net of regulatory liabilities, not accruing carrying costs. Of this amount, $39.3 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's purchase power contracts over the term of the contracts, and $15.4 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 asset's value. Regulatory assets are offset against regulatory liabilities within each rate-making area. Amounts expected to be collected or refunded in the next twelve months have been classified as current assets and current liabilities by rate-making area. As of September 30, 2015, GSWC had a total of $151.3 million in net regulatory assets, of which $4.1 million of regulatory liabilities were included in "Other Current Liabilities." Regulatory assets, less regulatory liabilities, included in the consolidated balance sheets are as follows:

(dollars in thousands)	September 30, 2015	December 31, 2014
GSWC		
Water Revenue Adjustment Mechanism, net of Modified Cost Balancing Account	$43,645	$9,369
Base Revenue Requirement Adjustment Mechanism	4,652	7,761
Costs deferred for future recovery on Aerojet case	12,930	13,629
Pensions and other post-retirement obligations (Note 7)	41,582	43,426
Derivative unrealized loss (Note 4)	7,246	3,339
Flow-through taxes, net (Note 6)	15,421	17,612
Low income rate assistance balancing accounts	8,645	9,109
Other regulatory assets	22,390	23,259
Various refunds to customers	(5,249)	(1,800)
Total	$151,262	$125,704

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, 2014 filed with the SEC. The discussion below focuses on significant matters and developments since December 31, 2014.

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. Based on CPUC guidelines, recovery periods relating to the majority of GSWC's WRAM/MCBA balances range between 18 and 24 months.

GSWC has implemented surcharges to recover its WRAM/MCBA balances as of December 31, 2014. For the three and nine months ended September 30, 2015, surcharges (net of surcredits) of approximately $1,586,000 and $1,676,000, respectively, were billed to customers to recover previously incurred under-collections in the WRAM/MCBA accounts. During the nine months ended September 30, 2015, GSWC recorded additional net under-collections in the WRAM/MCBA accounts of $36 million. The increase in the WRAM balance in 2015 is due to water conservation by our customers in response to the ongoing drought conditions in California. Lower water usage results in an increase in under-collections recorded in the WRAM accounts. As of September 30, 2015, GSWC had a net aggregated regulatory asset of $43.6 million which is comprised of a $45.6 million under-collection in the WRAM accounts and a $2.0 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 they are recorded. Due to the state-mandated water conservation targets, which are in effect through the end of February 2016, GSWC has recorded significant amounts in the WRAM under-collection during the nine months ended September 30, 2015. If GSWC continues to experience decreases in water consumption, the 2015 WRAM under-collection balances may not be fully collectible within 24 months under current CPUC amortization guidelines. There is also a CPUC-stipulated cap on total net WRAM/MCBA surcharges in a given calendar year of 10% of the last authorized revenue requirement. This cap and/or the current amortization guidelines could result in GSWC deferring the recognition of revenue for portions of the WRAM/MCBA, which we estimate to be collected subsequent to 24 months following the end of the fiscal year.

For BVES, the CPUC approved the Base Revenue Requirement Adjustment Mechanism (“BRRAM”), which adjusts base revenues to adopted levels. In November 2014, the CPUC issued a final decision on BVES's general rate case, setting rates and adopted revenues for the years 2013 through 2016. In March 2015, surcharges were implemented to collect the 2014 BRRAM under-collection of $3.1 million over 24 months. As of September 30, 2015, GSWC had a regulatory asset of $4.7 million under-collection in the BRRAM.

Other Regulatory Matters:

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 ten 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.
Rural Acquisition
In June 2013, GSWC entered into an Asset Purchase Agreement (the "Agreement") to acquire all of the operating water assets of Rural Water Company (“Rural”). In June 2015, the CPUC approved the acquisition of Rural, including GSWC's recovery of the purchase price through customer rates. On October 14, 2015, GSWC completed the transaction for an aggregate purchase price of $1.7 million and, as a result, GSWC will serve approximately 960 new customers near the City of Arroyo Grande in the county of San Luis Obispo, California, which is near GSWC's Santa Maria customer service area in Coastal California. GSWC is in the process of evaluating the purchase price allocation; however, the acquisition is not material to Registrant’s financial position or results of operations.

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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 September 30,		For The Nine Months Ended September 30,	
(in thousands, except per share amounts)	2015	2014	2015	2014
Net income	$21,079	$21,171	48,876	47,546
Less: (a) Distributed earnings to common shareholders	8,326	8,244	24,497	23,944
Distributed earnings to participating securities	47	48	134	133
Undistributed earnings	12,706	12,879	24,245	23,469
(b) Undistributed earnings allocated to common shareholders	12,633	12,805	24,114	23,340
Undistributed earnings allocated to participating securities	73	74	131	129
Total income available to common shareholders, basic (a)+(b)	$20,959	$21,049	$48,611	$47,284
Weighted average Common Shares outstanding, basic	37,063	38,704	37,653	38,744
Basic earnings per Common Share	$0.57	$0.54	$1.29	$1.22

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 September 30, 2015 and 2014, there were 174,306 and 235,584 options outstanding, respectively, under these Plans. At September 30, 2015 and 2014, there were also 211,406 and 224,543 restricted stock units outstanding, respectively, including performance shares awarded to officers of the Registrant.

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

Diluted:	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
(in thousands, except per share amounts)	2015	2014	2015	2014
Common shareholders earnings, basic	$20,959	$21,049	$48,611	$47,284
Undistributed earnings for dilutive stock-based awards	73	74	131	129
Total common shareholders earnings, diluted	$21,032	$21,123	$48,742	$47,413
Weighted average common shares outstanding, basic	37,063	38,704	37,653	38,744
Stock-based compensation (1)	203	226	200	219
Weighted average common shares outstanding, diluted	37,266	38,930	37,853	38,963
Diluted earnings per Common Share	$0.56	$0.54	$1.29	$1.22

(1) In applying the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in the calculation of diluted EPS, 174,306 and 235,584 stock options at September 30, 2015 and 2014, respectively, were deemed to be outstanding in accordance with accounting guidance on earnings per share. All of the 211,406 and 224,543 restricted stock units at September 30, 2015 and 2014, respectively, were included in the calculation of diluted EPS for the nine months ended September 30, 2015 and 2014.

No stock options outstanding at September 30, 2015 had an exercise price greater than the average market price of AWR's Common Shares for the nine months ended September 30, 2015. There were no stock options outstanding at September 30, 2015 or 2014 that were anti-dilutive.

During the nine months ended September 30, 2015 and 2014, AWR issued 96,157 and 95,331 common shares, for approximately $746,000 and $370,000, respectively, under Registrant's Common Share Purchase and Dividend Reinvestment Plan ("DRP"), the 401(k) Plan, the 2000 and 2008 Stock Incentive Plans and the 2003 and 2013 Non-Employee Directors Stock Plans.

On May 19, 2015, AWR's Board of Directors approved a stock repurchase program, authorizing AWR to repurchase up to 1.2 million shares of its Common Shares from time to time through June 30, 2017. Pursuant to this program, Registrant repurchased 574,832 and 961,853 Common Shares on the open market during the three and nine months ended September 30, 2015, respectively. 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 704,782 Common Shares on the open market during 2015. The 2014 stock repurchase program was completed in May 2015. The repurchase of Common Shares is restricted by California law under the same standards which apply to dividend distributions.

During the three months ended September 30, 2015 and 2014, AWR paid quarterly dividends of approximately $8.3 million, or $0.224 per share, and $8.2 million, or $0.213 per share, respectively. During the nine months ended September 30, 2015 and 2014, AWR paid quarterly dividends to shareholders of approximately $24.5 million, or $0.65 per share, and $23.9 million, or $0.618 per share, respectively.

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. These contracts are generally subject to the accounting guidance for derivatives and require mark-to-market derivative accounting. 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.

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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 approval in December 2014 also authorized BVES 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 September 30, 2015, there was a $7.2 million unrealized loss in the memorandum account for the purchased power contracts as a result of the recent decrease in energy prices. There were no derivatives as of September 30, 2014. The notional volume of derivatives remaining under these long-term contracts as of September 30, 2015 was approximately 498,000 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 and nine months ended September 30, 2015 and 2014:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
(dollars in thousands)	2015	2014	2015	2014
Fair value at beginning of the period	$(5,662)	$—	$(3,339)	$—
Unrealized loss on purchased power contracts	(1,584)	—	(3,907)	—
Fair value at end of the period	$(7,246)	$—	$(7,246)	$—

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 $9.7 million as of September 30, 2015. 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 September 30, 2015 and December 31, 2014 were determined using rates for similar financial instruments of the same duration utilizing Level 2 methods and assumptions. The interest rates used for the September 30, 2015 valuation increased as compared to December 31, 2014, decreasing the fair value of long-term debt as of September 30, 2015. Changes in the assumptions will produce differing results.

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	September 30, 2015		December 31, 2014	
(dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Long-term debt—GSWC	$325,862	$397,598	$326,090	$417,057

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. GSWC's ETR was 42.7% and 40.7% for the three months ended September 30, 2015 and 2014, respectively, and 41.6% and 40.5% for the nine months ended September 30, 2015 and 2014, respectively. GSWC's ETRs deviated from the statutory rate primarily due to state taxes and differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (primarily related to plant, rate-case and compensation items), as well as permanent items.

AWR's consolidated ETR was 40.6% for the three months ended September 30, 2015 as compared to 38.9% for the three months ended September 30, 2014, and was 39.4% for the nine months ended September 30, 2015 as compared to 38.8% for the nine months ended September 30, 2014. The ETR at the AWR consolidated level also fluctuated as a result of ASUS's state income taxes, which vary among the jurisdictions in which it operates.

Changes in Tax Law:

During the fourth quarter of 2014, the Company reflected a change in its tax method of accounting for certain repair and maintenance expenditures pursuant to regulations issued by the U.S. Treasury Department in September 2013. In connection with filing its 2014 federal tax return during the third quarter of 2015, the Company filed an application for an automatic change in tax accounting method with the Internal Revenue Service ("IRS") for the 2014 tax year to implement the new method (effective January 1, 2014). The tax accounting method change included a cumulative adjustment for 2013 and prior years, and permits the expensing of certain utility asset replacement costs that were previously being capitalized and depreciated for book and tax purposes. As a result of the change, the Company will deduct a significant amount of asset costs, which consist primarily of water mains and connections.

During the fourth quarter of 2014, GSWC recorded a cumulative adjustment for 2013 and prior years as well as the 2014 estimated deduction, and recognized a total deferred income tax liability of $30.8 million for federal and state repair-and-maintenance deductions as of December 31, 2014. Although this change reduces AWR's current taxes payable, it does not reduce total income tax expense or the 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 and nine months ended September 30, 2015 and 2014 are as follows:

	For The Three Months Ended September 30,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2015	2014	2015	2014	2015	2014
Components of Net Periodic Benefits Cost:						
Service cost	$1,569	$1,411	$65	$63	$204	$192
Interest cost	1,922	1,880	99	111	163	154
Expected return on plan assets	(2,449)	(2,225)	(123)	(114)	—	—
Amortization of transition	—	—	—	105	—	—
Amortization of prior service cost (benefit)	30	30	(50)	(50)	29	40
Amortization of actuarial (gain) loss	448	—	(131)	(115)	108	35
Net periodic pension cost under accounting standards	1,520	1,096	(140)	—	504	421
Regulatory adjustment — deferred	130	374	—	—	—	—
Total expense recognized, before allocation to overhead pool	$1,650	$1,470	$(140)	$—	$504	$421

	For The Nine Months Ended September 30,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2015	2014	2015	2014	2015	2014
Components of Net Periodic Benefits Cost:						
Service cost	$4,707	$4,233	$255	$261	$612	$576
Interest cost	5,766	5,640	327	371	489	462
Expected return on plan assets	(7,347)	(6,675)	(369)	(340)	—	—
Amortization of transition	—	—	—	313	—	—
Amortization of prior service cost (benefit)	90	89	(150)	(150)	87	120
Amortization of actuarial (gain) loss	1,344	—	(237)	(247)	324	105
Net periodic pension cost under accounting standards	4,560	3,287	(174)	208	1,512	1,263
Regulatory adjustment — deferred	392	1,123	—	—	—	—
Total expense recognized, before allocation to overhead pool	$4,952	$4,410	$(174)	$208	$1,512	$1,263

For the three and nine months ended September 30, 2015, Registrant contributed $5.8 million and $6.7 million, respectively, to the pension plan.

Regulatory Adjustment:

As authorized by the CPUC in the most recent water and electric general rate case decisions, GSWC utilizes two-way balancing accounts for its water and electric regions and the general office to track differences between the forecasted annual pension expenses adopted in rates and the actual annual expense recorded by GSWC in accordance with the accounting guidance for pension costs. As of September 30, 2015, GSWC had a total $2.3 million net under-collection in the two-way pension balancing accounts included as part of the pension regulatory asset (Note 2).

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Note 8 — Contingencies:

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 actually 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.

Claremont System:

On November 4, 2014, voters in the City of Claremont ("Claremont" or "the City") approved a measure authorizing the issuance of $135 million in water revenue bonds by the City to finance the acquisition of GSWC's Claremont water system. On December 9, 2014, the City filed an eminent domain lawsuit against GSWC. GSWC does not believe the seizure is necessary and intends to vigorously defend against the potential condemnation. The eminent domain Right to Take trial is scheduled to begin on March 7, 2016. At this time, management cannot predict the outcome of the eminent domain proceeding. The Claremont water system has a net book value of approximately $49.1 million. GSWC serves approximately 11,000 customers in Claremont.

Ojai System:

In March 2013, Casitas Municipal Water District ("CMWD") passed resolutions under the Mello-Roos Community Facilities District Act of 1982 ("Mello-Roos Act") authorizing the establishment of a Community Facilities District, and the issuance of bonds to finance the potential acquisition of GSWC's Ojai system by eminent domain. GSWC filed a petition in the Superior Court and eventually the Court of Appeals in Ventura County, which, among other things, challenged the legality of CMWD's effort to utilize the Mello-Roos Act to acquire property by eminent domain and to fund legal and expert costs of the planned condemnation. On April 14, 2015, the California Court of Appeals affirmed a prior court's ruling allowing the use of Mello-Roos funding. In May 2015, GSWC filed a petition for review at the Supreme Court of California, which the Supreme Court subsequently denied. Ojai FLOW ("Friends of Locally Owned Water") members were also granted class status by the Superior Court to later file action against GSWC should they be able to prove GSWC's motions delayed the condemnation action and resulted in higher costs for Ojai residents should the system be ultimately taken. GSWC serves approximately 3,000 customers in Ojai.

Artesia System:

On October 13, 2014, the City of Artesia's City Council approved a request for a feasibility study on the potential acquisition of GSWC's water system in Artesia. GSWC serves approximately 3,300 customers in Artesia.

Environmental Clean-Up and Remediation:

GSWC has been involved in environmental remediation and clean-up at a plant site ("Chadron Plant") that contained an underground storage tank which was used to store gasoline for its vehicles. This tank was removed from the ground in July 1990 along with the dispenser and ancillary piping. Since then, GSWC has been involved in various remediation activities at this site. Analysis indicates that offsite monitoring wells may also be necessary to document effectiveness of remediation.

As of September 30, 2015, the total spent to clean-up and remediate GSWC's plant facility was approximately $4.8 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 September 30, 2015, GSWC has a regulatory asset and an accrued liability for the estimated additional cost of $1.4 million to complete the clean-up at the site. The estimate includes costs for two years of 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.

Other Litigation:

Registrant is also subject to other ordinary routine litigation incidental to its business. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against property, general liability and workers' compensation claims incurred in the ordinary course of business. Registrant is unable to predict an estimate of the loss, if any, resulting from any pending suits or administrative proceedings.

Note 9 — Business Segments:

AWR has three reportable segments, water, electric and contracted services, whereas GSWC has two segments, water and electric. On a stand-alone basis, AWR has no material assets other than cash and its investments in its subsidiaries.

All activities of GSWC, a rate-regulated utility, are geographically located within California. Activities of ASUS and its subsidiaries are conducted in California, Georgia, Maryland, New Mexico, North Carolina, South Carolina, Texas and Virginia. Each of ASUS's wholly owned subsidiaries is 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 necessary with the regulatory commissions in the states in which ASUS's subsidiaries are incorporated.

The tables below set forth information relating to GSWC's operating segments, ASUS and its subsidiaries and other matters. Total assets by segment are not presented below, as certain of Registrant's assets are not tracked by segment. The utility plant amounts are net of respective accumulated provisions for depreciation. Capital additions reflect capital expenditures paid in cash and exclude government-funded capital expenditures for ASUS and property installed by developers and conveyed to GSWC.

	As Of And For The Three Months Ended September 30, 2015				
	GSWC			AWR	Consolidated
(dollars in thousands)	Water	Electric	ASUS	Parent	AWR
Operating revenues	$97,273	$7,946	$27,756	$—	$132,975
Operating income (loss)	33,178	903	7,108	(4)	41,185
Interest expense, net	5,117	267	7	(25)	5,366
Utility plant	977,549	50,294	4,276	—	1,032,119
Depreciation and amortization expense (1)	9,773	468	271	—	10,512
Income tax expense (benefit)	11,819	290	2,590	(305)	14,394
Capital additions	22,608	2,881	152	—	25,641

	As Of And For The Three Months Ended September 30, 2014				
	GSWC			AWR	Consolidated
(dollars in thousands)	Water	Electric	ASUS	Parent	AWR
Operating revenues	$96,700	$8,614	$33,013	$—	$138,327
Operating income	31,185	1,161	7,549	—	39,895
Interest expense, net	4,976	319	10	(10)	5,295
Utility plant	950,256	40,333	4,854	—	995,443
Depreciation and amortization expense (1)	9,643	593	313	—	10,549
Income tax expense (benefit)	10,749	270	2,857	(400)	13,476
Capital additions	17,093	726	275	—	18,094

	As Of And For The Nine Months Ended September 30, 2015				
	GSWC			AWR	Consolidated
(dollars in thousands)	Water	Electric	ASUS	Parent	AWR
Operating revenues	$256,358	26,804	65,364	$—	$348,526
Operating income (loss)	79,391	4,398	12,825	(9)	96,605
Interest expense, net	15,026	891	23	(33)	15,907
Utility plant	977,549	50,294	4,276	—	1,032,119
Depreciation and amortization expense (1)	29,482	1,235	879	—	31,596
Income tax expense (benefit)	26,550	1,606	4,349	(679)	31,826

Capital additions	52,770	6,560	518	—	59,848

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	As Of And For The Nine Months Ended September 30, 2014				
	GSWC			AWR	Consolidated
(dollars in thousands)	Water	Electric	ASUS	Parent	AWR
Operating revenues	$253,689	27,398	$74,826	$—	$355,913
Operating income (loss)	76,762	4,589	12,358	(46)	93,663
Interest expense, net	15,415	990	132	(72)	16,465
Utility plant	950,256	40,333	4,854	—	995,443
Depreciation and amortization expense (1)	28,840	1,868	896	—	31,604
Income tax expense (benefit)	25,081	1,426	4,603	(1,015)	30,095
Capital additions	50,744	1,406	1,564	—	53,714

(1) Depreciation expense computed on GSWC’s transportation equipment of $140,000 and $201,000 for the three months ended September 30, 2015 and 2014, respectively, and $514,000 and $698,000 for the nine months ended September 30, 2015 and 2014, respectively, is recorded in administrative and general expenses.

The following table reconciles total utility plant (a key figure for rate-making) to total consolidated assets (in thousands):

	September 30,	
	2015	2014
Total utility plant	$1,032,119	$995,443
Other assets	330,045	330,672
Total consolidated assets	$1,362,164	$1,326,115

Note 10 — Military Privatization:

The 50-year contracts with the U.S. government to operate, maintain and perform construction activities on the water and/or wastewater systems at various military bases are subject to periodic price redeterminations or economic price adjustments and modifications for changes in circumstances. ASUS has experienced delays in redetermining prices as required by the terms of these contracts. As a result, price redeterminations, when finally approved, can be retrospective and prospective.

During the third quarter of 2015, the U.S. government approved price redeterminations related to the operations at Andrews Air Force Base in Maryland, Fort Jackson in South Carolina and the military bases in Virginia, as well as an asset transfer at two of the Virginia bases. ASUS received contract modifications from the U.S. government for these price redeterminations and asset transfer, which included retroactive operation and maintenance management fees for prior periods. Revenues from operation and maintenance management fees are recognized when services are rendered. Accordingly, ASUS recorded approximately $3.5 million of retroactive revenues and pretax operating income in connection with these contract modifications during the three months ended September 30, 2015, of which $3.0 million is for periods prior to 2015.

In September 2014, the U.S. government approved price redeterminations related to the operations at Fort Bragg in North Carolina, Fort Jackson and Andrews Air Force Base, which also included retroactive operation and maintenance management fees and retroactive renewal and replacement fees for prior periods. ASUS recorded approximately $2.4 million of retroactive revenues and pretax operating income in connection with these contract modifications during the three months ended September 30, 2014. In addition, approximately $6.0 million related to renewal and replacement funds was also recorded in "billings in excess of costs and estimated earnings on contracts", which will be recognized in construction revenues (along with the related construction costs) when the work is performed. Unbilled receivables for ASUS represent completed construction revenues and operation and maintenance management fees earned but not yet billed, and also renewal and replacement fees due from the U.S. government but not yet billed.

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

General

The following discussion and analysis provides information on AWR's consolidated operations and assets and, where necessary, includes specific references to AWR's individual segments and/or other subsidiaries: GSWC and ASUS and its subsidiaries. Included in the following analysis is a discussion of GSWC's water and electric gross margins. Water and electric gross margins are each computed by subtracting total supply costs from total revenues. Registrant uses these gross margins and related percentages as an important measure in evaluating its operating results. Registrant believes these measures are useful internal benchmarks in evaluating the performance of GSWC.

The discussions and tables included in the following analysis also present Registrant's operations in terms of earnings per share by business segment. Registrant believes that the disclosure of earnings per share by business segment provides investors with clarity surrounding the performance of our different services. Registrant reviews these measurements regularly and compares them to historical periods and to our operating budget; however, these measures, which are not presented in accordance with generally accepted accounting principles ("GAAP"), may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income or earnings per share, which are determined in accordance with GAAP. A reconciliation of water and electric gross margins to the most directly comparable GAAP measures are included in the table under the section titled "Operating Expenses: Supply Costs." Reconciliations to AWR's diluted earnings per share are included in the discussions under the section titled "Summary of Third Quarter Results by Segment."

Overview

GSWC's revenues, operating income and cash flows are earned primarily through delivering potable water to homes and businesses in California and the delivery of electricity in the Big Bear area of San Bernardino County, California. Rates charged to GSWC customers are determined by the California Public Utilities Commission ("CPUC"). These rates are intended to allow recovery of operating costs and a reasonable rate of return on capital. Factors affecting the financial performance of GSWC are described under Forward-Looking Information and include: the process and timing of setting rates charged to customers; the ability to recover, and the process for recovering in rates, the costs of distributing water and electricity and overhead costs; pressures on water supply caused by the drought in California, changing weather patterns in the West, population growth, more stringent water quality standards and deterioration in water quality and water supply from a variety of causes; fines, penalties and disallowances by the CPUC arising from failures to comply with regulatory requirements; the impact of increased water quality standards and environmental regulations on the cost of operations and capital expenditures; changes in long-term customer demand due to changes in usage patterns as a result of conservation efforts, mandatory regulatory changes impacting the use of water, such as mandatory restrictions on water use, new landscaping or irrigation requirements, recycling of water by customers and purchases of recycled water by customers from other third parties; capital expenditures needed to upgrade water systems; and increased costs and risks associated with litigation relating to water quality and water supply, including suits initiated by GSWC to protect its water supply and condemnation actions initiated by municipalities. GSWC plans to continue to seek 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 are expected to remain at higher levels than depreciation expense. When necessary, GSWC obtains funds from external sources in the capital markets and through bank borrowings.

ASUS's revenues, operating income and cash flows are earned by providing water and/or wastewater services, including the operation, maintenance, renewal and replacement of the water and/or wastewater systems at various military installations pursuant to 50-year firm, fixed-price contracts. The contract price for each of these contracts is subject to prospective price redeterminations or economic price adjustments. Additional revenues generated by contract operations are primarily dependent on new construction activities under contract modifications with the U.S. government or agreements with other third-party prime contractors. As a result, ASUS is subject to risks that are different from those of GSWC. Factors affecting the financial performance of the Military Utility Privatization Subsidiaries are described under Forward-Looking Information and include delays in receiving payments from and the redetermination and equitable adjustment of prices under contracts with the U.S. government; fines, penalties or disallowance of costs by the U.S. government; and termination of contracts and suspension or debarment for a period of time from contracting with the government due to violations of federal law and regulations in connection with military utility privatization activities. ASUS's financial performance is also dependent upon its ability to accurately estimate costs in bidding on firm fixed-price contracts for additional construction work at existing bases and the costs of seeking new contracts for the operation and maintenance and renewal and replacement of water and/or wastewater services at military bases. ASUS is actively pursuing utility privatization contracts of other military bases to expand the contracted services segment.

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During the third quarter of 2015, ASUS received retroactive contract modifications from the U.S. government for price redeterminations related to Andrews Air Force Base, Fort Jackson and the military bases in Virginia. As a result, included in earnings for the three and nine months ended September 30, 2015 was approximately $3.5 million and $3.0 million, respectively, in retroactive revenues related to these redeterminations for prior periods.

Summary of Third Quarter Results by Segment

The table below sets forth the third quarter diluted earnings per share by business segment:

	Diluted Earnings per Share Three Months Ended		
	9/30/2015	9/30/2014	CHANGE
Water	$0.43	$0.40	$0.03
Electric	0.01	0.01	—
Contracted services	0.12	0.12	—
AWR (parent)	—	0.01	(0.01)
Consolidated diluted earnings per share, as reported	$0.56	$0.54	$0.02

Water Segment:
For the three months ended September 30, 2015, diluted earnings from the water segment increased by $0.03 to $0.43 per share as compared to $0.40 per share for the same period in 2014. Excluding surcharges approved by the CPUC for the recovery of previously incurred costs, which have no impact on operating income, the following items impacted the comparability of the two periods:

- An increase in the water gross margin of $672,000, or $0.01 per share, due to CPUC-approved third-year rate increases and advice letter filings for the completion of certain capital projects not previously included in rates.
- Excluding supply costs, a decrease in operating expenses of $1.3 million, or $0.02 per share, due primarily to lower administrative and general expenses, which declined by $1.4 million resulting mostly from lower legal and other outside service costs related to condemnation and other activities, as compared to the same period in 2014. However, GSWC expects to incur additional legal costs to defend two of its water systems from condemnation actions.
- A decrease in other income, net of other expenses of $534,000, or $0.01 per share, due to a decrease in interest income, as well as losses recorded on investments held for a retirement benefit plan resulting from market conditions during the third quarter of 2015.
- An increase in the effective income tax rate ("ETR"), decreasing earnings by $0.01 per share as compared to the same period in 2014. The increase in the ETR was due primarily to changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements.
- The cumulative impact of lower common shares outstanding resulting from the 2014 and 2015 stock repurchase programs, increasing water earnings by approximately $0.02 per share as compared to the third quarter of 2014.

Billed water consumption for the third quarter of 2015 decreased by approximately 24% as compared to the same period in 2014 due to water conservation by our customers in response to the ongoing drought conditions in California. Mandatory water conservation and rationing have been implemented across all of GSWC's water systems to help the communities it serves meet the state's reduction mandates; therefore, water consumption is expected to continue to be lower during the remainder of 2015 as compared to the same period last year. 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 for future recovery. Excluding surcharges, which again have no impact on operating income, GSWC's water gross margin approximates the authorized gross margin approved by the CPUC.
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 they are recorded. Due to the state-mandated water conservation targets, which are in effect through the end of February 2016, GSWC has recorded a $36 million WRAM under-collection for the nine months ended September 30, 2015. If GSWC continues to experience decreases in water consumption, the 2015 WRAM under-collection balances may not be fully collectible

within 24 months under current CPUC amortization guidelines. This could result in GSWC deferring the recognition of revenue for portions of the WRAM, which we estimate to be collected subsequent to 24 months following the end of the fiscal year.

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Electric Segment:
For the three months ended September 30, 2015 and 2014, diluted earnings from the electric segment were $0.01 per share. A decrease in depreciation expense resulting from lower depreciation composite rates approved by the CPUC also resulted in a lower revenue requirement, resulting in no significant impact to earnings.
Contracted Services Segment:
For the three months ended September 30, 2015 and 2014, diluted earnings from contracted services were $0.12 per share. There was an increase in monthly operations and maintenance (“O&M”) management fees as a result of successful resolutions of various price redeterminations received during the third quarter of 2015, increasing earnings by $0.01 per share. These price redeterminations also included a $0.02 per share increase in retroactive O&M management fees, as compared to the retroactive impact for the price redeterminations received in the same period of 2014. The increase in O&M management fees was offset mostly by an increase in operating expenses and a decrease in construction activity as compared to the same period in 2014. The lower construction activity as compared to the third quarter of 2014 was due largely to the completion of several large capital projects during 2014, which did not recur in 2015. However, during the third quarter of 2015, the U.S. government awarded ASUS approximately $50 million in new construction projects, the majority of which are expected to be completed during the next twelve months.
AWR (parent):
Diluted earnings from AWR (parent) decreased by $0.01 per share during the third quarter of 2015 as compared to the same period in 2014 due primarily to higher state income taxes.

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Summary of Year-to-Date Results by Segment

The table below sets forth the year-to-date diluted earnings per share by business segment:

	Diluted Earnings per Share		
	Nine Months Ended		
	9/30/2015	9/30/2014	CHANGE
Water	$1.00	$0.94	$0.06
Electric	0.05	0.06	(0.01)
Contracted services	0.22	0.20	0.02
AWR (parent)	0.02	0.02	—
Consolidated diluted earnings per share, as reported	$1.29	$1.22	$0.07

Water Segment:

For the nine months ended September 30, 2015, diluted earnings from the water segment increased by $0.06 to $1.00 per share as compared to the same period in 2014. Excluding surcharges, which have no impact on operating income, the following items impacted the comparability of the two periods:

- The water gross margin increased by approximately $1.7 million, or $0.03 per share, due to CPUC-approved third-year rate increases and advice letter filings for the completion of certain capital projects not previously included in rates.
- Excluding supply costs, there was a decrease in operating expenses of $958,000, or $0.01 per share, resulting from lower water treatment costs mainly as a result of a decrease in water consumption and less pumped water, as well as a decrease in legal and other outside services costs related to condemnation and other matters, as compared to the same period in 2014.
- An increase in the water ETR for the nine months ended September 30, 2015 as compared to the same period in 2014, decreasing earnings by $0.01 per share. The increase in the ETR was due primarily to changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements.
- The cumulative impact of the lower common shares outstanding resulting from the 2014 and 2015 stock repurchase programs increased water earnings per share by approximately $0.03 as compared to last year.

Electric Segment:

For the nine months ended September 30, 2015, diluted earnings from the electric segment were $0.05 per share as compared to $0.06 per share for the same period in 2014. This was largely due to a decrease in the electric gross margin resulting from a change in the monthly allocation of the annual adopted base revenues approved by the CPUC in November 2014 in connection with the electric rate case. Differences in the monthly revenue spread for 2015 versus 2014 are expected to reverse by the end of the year. There was also an increase in the electric ETR due primarily to changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements.

Contracted Services Segment:

Diluted earnings from contracted services increased by $0.02 per share during the nine months ended September 30, 2015 as compared to the same period in 2014. This increase was due to favorable changes in cost estimates for certain capital work in progress, as well as an increase in retroactive revenues from price redeterminations as compared to the same period in 2014, as previously discussed. Additionally, the ETR for the contracted services segment was lower as compared to the same period in 2014, due primarily to a reduction in state income taxes, which vary among the jurisdictions in which it operates. Finally, the cumulative impact of the lower common shares outstanding resulting from the 2014 and 2015 AWR repurchase programs increased contracted services earnings per share by approximately $0.01 per share as compared to last year. These increases were partially offset by lower construction activity and an overall increase in operating expenses as compared to the same period in 2014. The lower construction activity as compared to the same period in 2014 was due largely to the completion of several large capital projects during 2014 which did not recur in 2015. As previously mentioned, the U.S. government awarded ASUS approximately $50 million in new construction projects, the majority of which are expected to be completed during the next twelve months.

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Consolidated Results of Operations — Three Months Ended September 30, 2015 and 2014 (amounts in thousands, except per share amounts):

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$97,273	$96,700	$573	0.6 %
Electric	7,946	8,614	(668)	(7.8)%
Contracted services	27,756	33,013	(5,257)	(15.9)%
Total operating revenues	132,975	138,327	(5,352)	(3.9)%
OPERATING EXPENSES				
Water purchased	18,127	17,837	290	1.6 %
Power purchased for pumping	2,982	3,914	(932)	(23.8)%
Groundwater production assessment	3,146	4,291	(1,145)	(26.7)%
Power purchased for resale	2,299	2,383	(84)	(3.5)%
Supply cost balancing accounts	4,824	3,179	1,645	51.7 %
Other operation	7,056	6,958	98	1.4 %
Administrative and general	19,272	20,142	(870)	(4.3)%
Depreciation and amortization	10,512	10,549	(37)	(0.4)%
Maintenance	4,393	4,390	3	0.1 %
Property and other taxes	4,326	4,359	(33)	(0.8)%
ASUS construction	14,853	20,430	(5,577)	(27.3)%
Total operating expenses	91,790	98,432	(6,642)	(6.7)%
OPERATING INCOME	41,185	39,895		